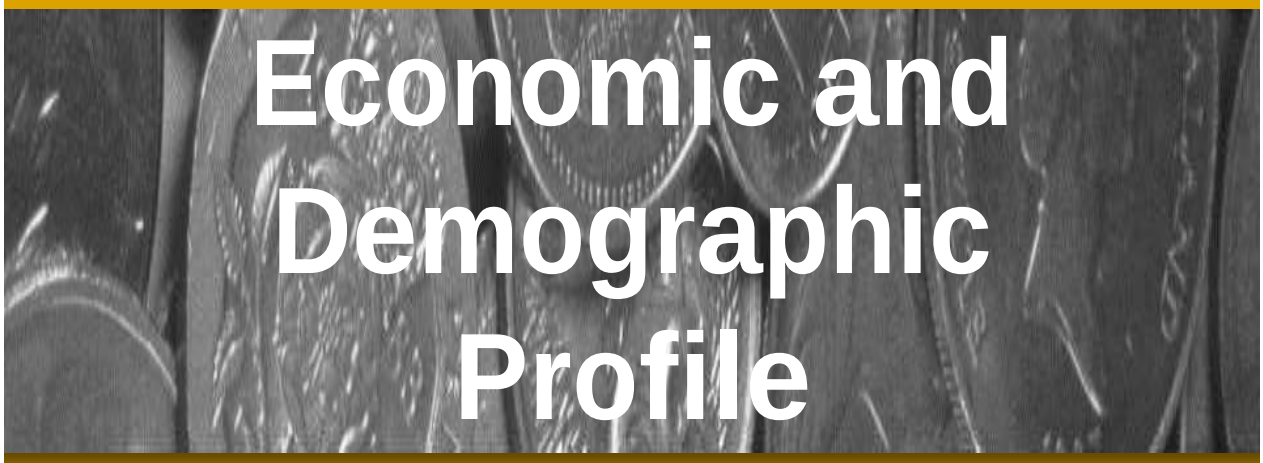
Indiana Department of Commerce



Economic and Demographic Profile

Prepared by:
Market Street Services, Inc.

September 21, 2001

Indiana
Be in a state of progress

DETAILED

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Overview

The changes occurring in the national and global economies have led to substantive changes in the field of economic development. States and the communities within them can no longer rely solely on real estate costs, labor rates, and basic infrastructure to ensure success. Instead, communities must also consider such factors as access to venture capital, the educational attainment of the workforce, and the quality of life that workers can enjoy to compete effectively for today's knowledge-based companies.

As the national economy transforms from one dominated by physical assets to one that relies more on services and intellectual assets, states must assess how to take advantage of and position themselves in light of this transformation. However, this shift has not happened overnight. As *Wired Magazine* editor Kevin Kelly points out, "the seeds for today's new economy were planted decades ago," and it has only been recently that those investments have begun to bloom.

The question of how to structure a state economic development program in this rapidly changing economy is a difficult one. Clearly, the business of economic development has changed as all of the net job creation now comes from small and medium firms and Fortune 500 companies continue to shrink with each passing day. There are useful principles and key programs that must be included in a state-level system, but each state's economic situation and strategic needs are different.

In the past 10 years, there has been considerable experimentation with privatization and non-traditional delivery systems. There is no magic bullet. Each state needs to carefully consider its own economic structure and realities, its size, its community structure, and its key expectations and goals. The Indiana Department of Commerce, policy makers, and elected officials have recognized the challenges and needs facing the State of Indiana as it moves forward into the future with respect to making good economic development decisions based upon the State's competitive position.

Market Street Services, Inc., a national community and economic development consulting firm located in Atlanta, Georgia, was retained by the Indiana Department of Commerce to help the State clearly assess its competitive position both in relation to other states and the nation. Based upon this information, best practices throughout the country, and local input, three to five organizational and structural options will be developed for consideration. These structural options are intended to help the Indiana Department of Commerce and the State of Indiana fulfill its role in overseeing strategic planning, making policy recommendations, and introducing best practices to Indiana's economic development efforts as it move forward into the future.

The process for developing the organizational and structural options for Indiana entails three steps involving two tasks each:

Step One – Economic Realities

The first step is to create a clear understanding of where the State of Indiana really is economically and what its competitive position is in relation to other states. Many times, policy makers and elected officials make decisions without solid information. There are always myths and misinformation that should be addressed.

Task One – Economic and Demographic Profile

This detailed profile provides an objective analysis of the Indiana economy. The analysis will focus on direct comparisons with other states to demonstrate the

relative economic competitiveness of Indiana and an examination of the regional economies within the State. This approach recognizes that Indiana has multiple economies with different structures and dynamics that affect the competitiveness and economic development in each region.

Task Two – Competitive Assessment

This task provides a critical review of the key factors affecting Indiana's business climate including four fundamental components: workforce and education; infrastructure; business costs; and quality of life. The *Competitive Assessment* will provide a clear statement of the strengths and weaknesses affecting Indiana's business development potential. The State's competitiveness will be summarized relative to the nation, several leading states, and the states immediately surrounding Indiana.

Step Two – Best Practices

The second step reviews the organizational structures that successful states are using and the program best practices in key areas. In today's economy, a comprehensive state economic development program has at least 11 or 12 vital program areas.

Task Three – Best Practices – Statewide Delivery Systems

A review of "best practices" in statewide delivery systems, models, and options will help to provide benchmarks for evaluating Indiana's current service delivery system, and provide a framework for evaluating organizational structures.

Task Four – Best Practices – Program Areas

This document will focus on best practices, models, and options according to program area. For each program area, its importance and role in a community and economic development system, key characteristics of why the effort is successful, and the key lessons or applications the program provides will be discussed.

Step Three – Option Development

The final step involves aggregating the information collected and determining the possible organizational and structural options the State of Indiana can pursue.

Task Five – Regional Input

One of the most important parts of the process is to ask for local input from community leaders, economic development professionals, business leaders, elected officials, and other key stakeholders. Through a series of regional meetings, the data and information collected to date will be presented, and attendees will be asked for their ideas on what Indiana should do and how it should be organized to do it.

Task Six – Structural Options

Based upon the regional input and data collected, three to five organizational and structural options will be created that are designed specifically for Indiana based upon the information generated and the policy decisions made during the process. Once a final option is selected, an implementation plan will be devised including a public rollout of the new structure and collateral material.

This report comprises the first task of the first step in this planning process, and looks at a number of demographic and economic factors both statewide and locally to establish where the State of Indiana has been and where it is today. The *Economic and Demographic Profile* will inform the creation of the appropriate structural options for the State of Indiana and the Department of Commerce, and act as a resource to which the State can turn to as the process evolves.

Introduction

Before a state can move forward and set goals for its economic future and establish the organizational structure to accomplish those goals, it must examine past and current realities. The purpose of the *Demographic and Economic Profile* is to examine these realities so that Indiana can chart its course for the future, providing State leaders with a reliable baseline of information to support future decision-making regarding economic development. Understanding the State's dynamics will help frame the issues and opportunities to be addressed in future planning efforts.

The report is divided into four sections.

- **Profile of Indiana** presents an overall profile of Indiana, with comparisons to national averages. This section examines demographic trends, economic performance, and changes in economic structure in Indiana over the last two decades.

- **County Profiles** presents selected indicators for the counties within Indiana. An examination of demographic and economic variables at this level shows how economic activity and prosperity are distributed within the State, and helps to illustrate any regional patterns.

- **State Comparisons** compares Indiana to five other states to assess Indiana's competitive position. The five comparison states are Illinois, Kentucky, Michigan, Ohio, and Wisconsin. State level comparisons are made on population growth, job growth, income, and other key indicators.

- **Summary of Key Findings** provides an overall summary of key findings from the preceding sections. This summary identifies key issues that impact Indiana's economic future.

Data Sources

To ensure consistency, the most recent data available from national sources have been used whenever possible. Although more recent information may be available from state or other independent sources, national data sources are used to ensure an "apples to apples" comparison.

Profile of Indiana

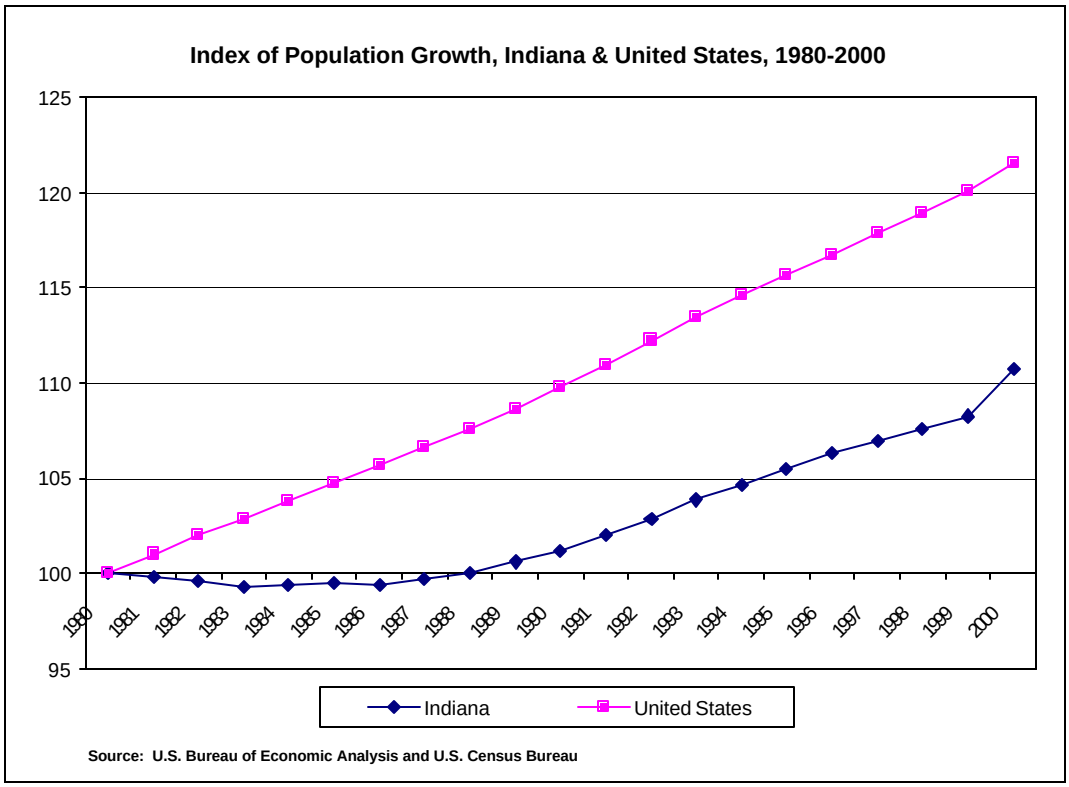
This section provides an examination of the demographic and economic trends for the State of Indiana as a whole and compares its performance in relation to national averages.

Demographic Analysis

Demographic analyses provide states with information as to how their citizens are doing socially and how they are changing over time. When compared to national averages on the same indicators, states have a benchmark to see how they are doing, and where their strengths and weaknesses are found. Demographic indicators highlighted include population growth, migration patterns, age distribution, racial and ethnic composition, and other indicators of "how the people are doing."

Population Growth

Population growth is one of the fundamental indicators of economic vitality. Indiana's population grew by 10.7% between 1980 and 2000, for a total population of 6,080,485 in 2000. In comparison, the population in the United States grew over 21% in the last two decades – twice as much as in Indiana. As seen in the following chart, the State actually lost population between 1980 and 1983, and it took until 1988 to return to its 1980 size. The vast majority of growth happened in the 1990s.



Components of Population Change

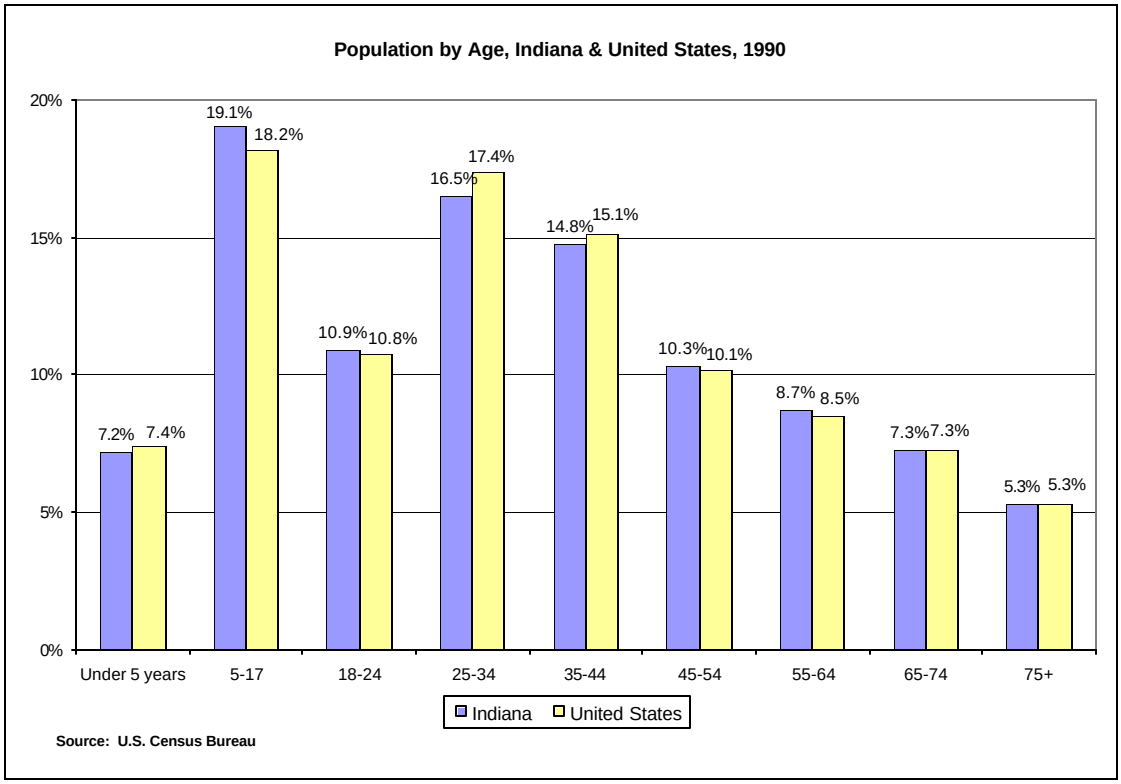
Population change is generated by two sources: migration and natural change. Migration, both domestic and international, consists of people moving into and out of the State. Natural change is the difference between births and deaths.

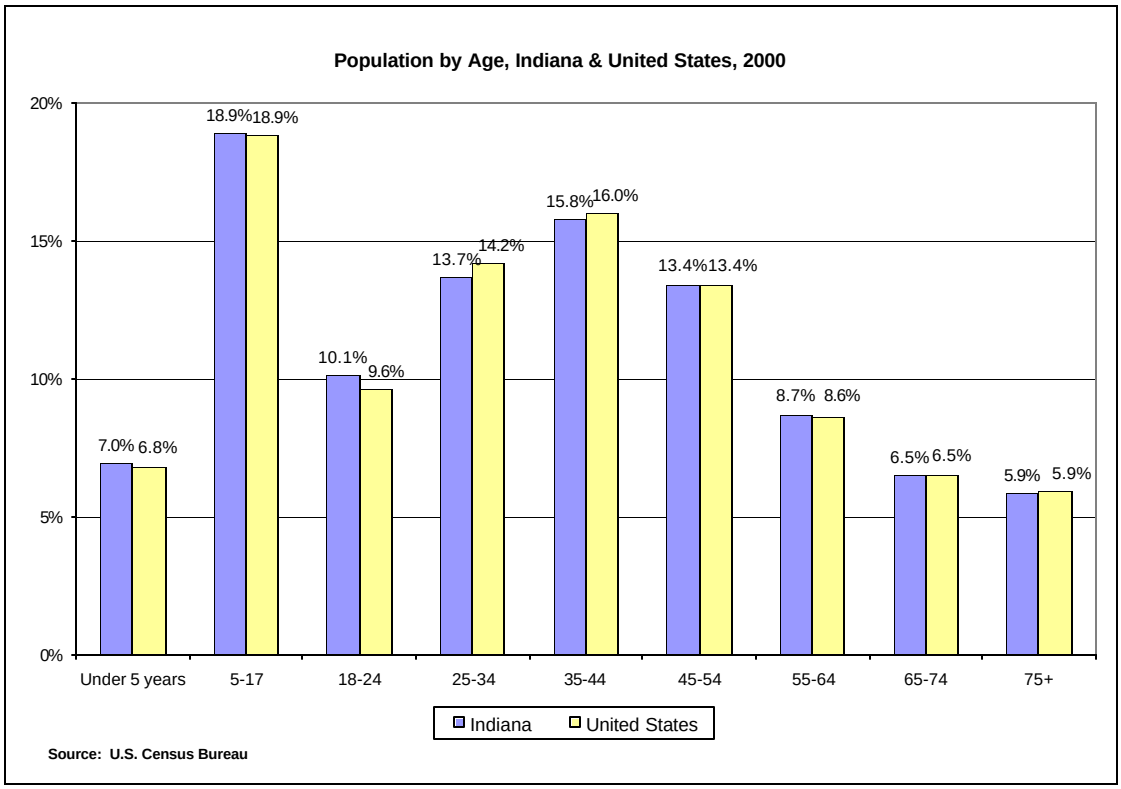
In Indiana, almost three-fourths (72.6%) of the population growth between 1990 and 1999 was due to natural change; 20.2%, domestic migration; and the remaining 7.1%, international migration. This is slightly higher than the national average where 68% of the population growth was due to natural change, and 32% to international migration. Domestic migration is not applicable at the national level because domestic migration is a person moving from state to state. Therefore, one state's gain is another state's loss resulting in a net change of zero. Clearly, natural change is the driver behind population growth in Indiana, and not people relocating to the State.

Age Distribution

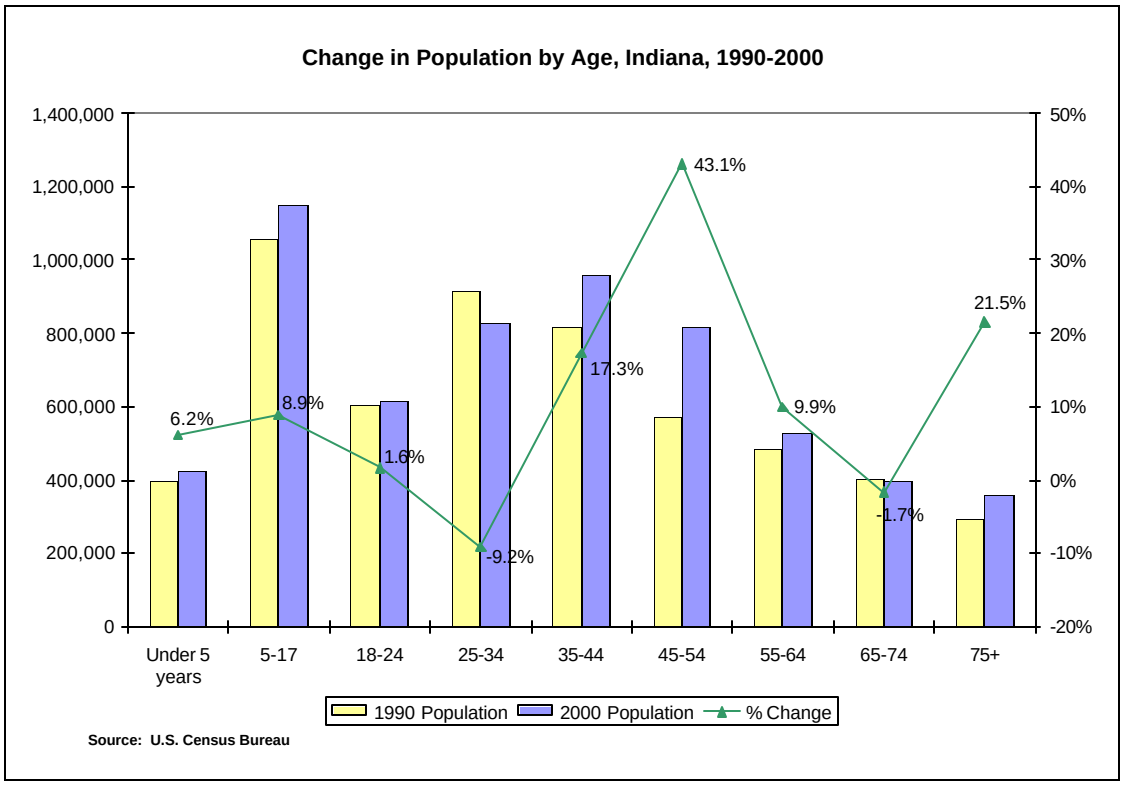
The charts on the following page depict the age distribution for Indiana and the United States in 1990 and 2000. In 1990, Indiana's population mirrored that of the nation, with no age category having more than a 1% difference. This trend held true 10 years later in 2000 as Indiana's percentages were still very similar to the national averages.

Comparing the charts for 1990 and 2000 shows that there were shifts between the age categories in Indiana and the nation, with some gaining share and others losing share. The percentage of population change in the 35 and older age groups were similar for the nation and Indiana. Conversely, the percentage of population 34 years of age and younger decreased from 53.7% in 1990 to 49.7% in 2000 in Indiana, and from 53.7% to 49.5% in the nation, but the composition of that change was different between Indiana and the nation. The percentage of 5-to-17 year olds decreased in Indiana while it increased at the national level. Additionally, the percentage of Indiana's population in the under 5 and 18-to-34 age groups had a smaller percentage decrease than the nation.


Population by Age, Indiana & United States, 1990
20%
15%
10%
5%
0%
7.2% 7.4%
19.1% 18.2%
10.9% 10.8%
16.5% 17.4%
14.8% 15.1%
10.3% 10.1%
8.7% 8.5%
7.3% 7.3%
5.3% 5.3%
Under 5 years
5-17
18-24
25-34
35-44
45-54
55-64
65-74
75+
Indiana
United States
Source: U.S. Census Bureau


Population by Age, Indiana & United States, 2000
20%
15%
10%
5%
0%
7.0% 6.8%
18.9% 18.9%
10.1% 9.6%
13.7% 14.2%
15.8% 16.0%
13.4% 13.4%
8.7% 8.6%
6.5% 6.5%
5.9% 5.9%
Under 5 years
5-17
18-24
25-34
35-44
45-54
55-64
65-74
75+
Indiana
United States
Source: U.S. Census Bureau

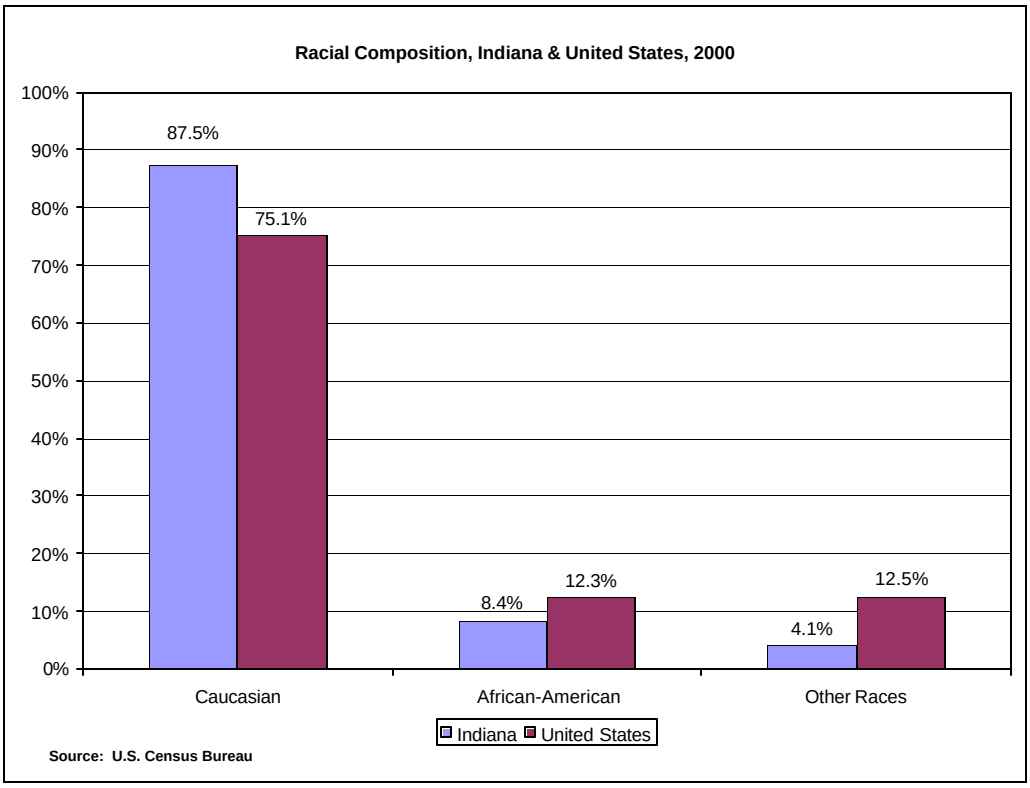
As seen in the chart below, the percent change in the various age categories varied dramatically in the State of Indiana between 1990 and 2000. The largest percentage growth occurred in the 45-to-54 and over 75 age groups, while the 25-to-34 age group saw the most significant decrease in share over the decade (-9.2%). Together, these changes may be an indication of both the aging of the population in the State and the out-migration of young adults from the area.



Racial and Ethnic Composition

Racially, Indiana is less diverse than the nation. In 2000, Caucasians comprised 87.5% of the population and African-Americans, 8.4%, as seen in the chart on the following page. At the national level, Caucasians accounted for 75.1% of the population; African-Americans, 12.3%; and other races, 12.6%.

Over the last 10 years, Indiana's population has gotten more diverse. However, Indiana's total growth of minorities did not keep pace with the nation. Indiana's non-Caucasian population grew from 9.4% of the population in 1990 to 12.5% in 2000. This 3.1% change was lower than the national change of 5.2%.



People of Hispanic ethnicity accounted for only 3.5% of the population in Indiana in 2000, almost four times less than the nation percentage of 12.5%. Over the last 10 years, Indiana's Hispanic population grew over 117%, while the United States saw a 58% increase.

Educational Attainment

Educational attainment is an important issue in terms of both quality of life and the business development in an area. The growing role of information, knowledge, and technology in the current economy has increased the importance of educational attainment and workforce skills. Data for 1999 from the U.S. Census Bureau confirmed that, on average, the more education a worker has, the higher his/her income. Median income for those with a high school degree was $18,571, while those without a diploma had a median income of $10,839 – a $7,732 difference. Incomes continued to increase as educational attainment increased, proving that education is a key component of quality of life and economic stability.

The 2000 Census estimated that 81.7% of Indiana residents over 25 years old have a high school diploma, comparable to the national average of 81.6%, as seen in the table on the following page. However, only 19.9% of adult 25 and older in Indiana had a Bachelors degree while the national average was 25.1%. Although Indiana has improved its percentages since 1990, the State did not keep pace with the improvements made at the national level, and fell even further behind in its percentage of college graduates.

TABLE 1. EDUCATIONAL ATTAINMENT, INDIANA AND UNITED STATES, 1990 & 2000

	High School Diploma or higher		Bachelor's Degree or higher	
	1990	2000	1990	2000
Indiana	75.7%	81.7%	15.6%	19.9%
United States	75.2%	81.6%	20.3%	25.1%

Source: U.S. Census Bureau

Often overlooked in demographic analyses is the attainment of a two-year or Associate degree from a community or technical college. A significant number of the jobs being created in today's economy do not necessarily require a four-year degree, and instead require technical training that can be obtained at a community or technical college. Individuals that graduate these programs tend to have the technical skills and knowledge necessary to immediately contribute to the workforce. Pursing a two-year or Associate degree is an excellent alternative to the traditional path for further education, and equips the workforce with valuable skills that are not taught in high school.

As seen in the table below, the State of Indiana lags behind the United States in the attainment of an Associate degree both for the entire population aged 25 and older, and for those individuals who have a high school degree but did not pursue traditional higher education such as a Bachelor or graduate degree. Additionally, at both the State and national levels, the percentage of individuals with an Associate degree has actually decreased between 1990 and 2000. This is probably an indication that more people are pursing traditional higher education pathways versus a two-year or Associate degree, as reflected in the higher percentage of individuals with a college degree in the 2000 Census. This does not necessarily discount the importance and the community and technical college system as more people may be attending these colleges to obtain a certificate versus a degree.

TABLE 2. ASSOCIATE DEGREES, INDIANA AND UNITED STATES, 1990 & 2000

	Associate Degree, Total Population		Associate Degree, Population with a High School Degree but not Bachelor's or Graduate Degree	
	1990	2000	1990	2000
Indiana	5.3%	5.2%	8.8%	8.4%
United States	6.2%	6.0%	11.2%	10.5%

Source: U.S. Census Bureau

A review of the data from the Indiana Department of Education indicates that the State's primary and secondary educational systems appear to be improving. The student to teacher ratio has dropped slowly since the 1980s, dropping from 19.9 in 1981-1982 to 16.7 in the 2000-2001 school year. At the same time, the dollars spent per student has risen from $2,319 in 1981-1982 (dollars adjusted for inflation) to $4,145 in 1998-1999. Indiana ranked 15th in average teacher salary in the 1999-2000 school year, paying $41,855, which was just over the national average of $41,820.[1]

Indiana's Scholastic Aptitude Test (SAT) scores have risen as well going from 976 (combined verbal and math) in 1988 to 999 in 2000, which is still lower than the U.S. average of 1019. The average ACT Assessment score for Indiana students was 21.2 in 1997 and improved to 21.4 in 2001. Indiana's ACT scores stayed slightly above the national average (21.0 each year) between 1997 and

[1] "Paying Teachers, More or Less," *State Policy Reports*, vol.19, Issue 10, May 2001, pp. 2-9.

2001. Finally, Indiana is graduating more students with graduation rates[2] increasing from 86.4% in 1996 to 89.5% in 2000.

Poverty

Several demographic statistics are direct indicators of "how people are doing." Table 3, which compares average poverty rates from 1994 to 1996 to average rates in 1997 to 1999, shows that Indiana has a lower than average poverty level, and has had made greater strides in its efforts to reduce poverty than the nation as a whole.

TABLE 3. POVERTY RATES, INDIANA AND UNITED STATES, 1994-1999

	All Ages		Under 19, At or Below 200% of Poverty	
	1994-1996	1997-1999	1994-1996	1997-1999
Indiana	10.3%	8.3%	38.2%	30.3%
United States	14.0%	12.6%	43.2%	37.7%

Source: U.S. Census Bureau

There are several federal nutrition programs designed to assist families: school breakfast program, school lunch program, food stamp program, and special supplemental program for women, infants, and children (WIC). Indiana had a lower percentage of residents participating in these four main programs than in the nation. The table below shows participation rates for these programs in Indiana and the United States.

TABLE 4. FEDERAL NUTRITION PROGRAM PARTICIPATION RATES, INDIANA AND UNITED STATES

	Indiana	United States
School Breakfast Program (1999-2000)	5.8%	9.1%
National School Lunch Program (1999-2000)	15.4%	21.5%
Food Stamp Program (FY 1999)	5.0%	6.7%
Change 10/99 to 10/00	+8%	-3%
Change 10/95 to 10/00	-21%	-34%
WIC (FY1999)	2.2%	2.6%

Source: Food Research and Action Center, Washington D.C.

These statistics reinforce the poverty statistics showing that Indiana's population is doing better than the national average. However, the changes in food stamp program participation rates show that Indiana has not kept pace with reductions in participation rates made by the nation between 1995 and 2000, especially between 1999 and 2000 when Indiana's participation rate increased while the nation's decreased. This could be due to the fact that the rate was lower in Indiana to begin with and the circumstances leading to food stamp program participation are more difficult to resolve, or that the social health of the populace is indeed declining.

[2] Indiana changed some of their definitions, so data before the 1995-1996 school year is not directly comparable.

Teenage Pregnancy

Teenage pregnancy rates can be used as one indicator of a state's social well being. According to the Centers for Disease Control and Prevention (CDC), the teenage pregnancy rate in Indiana declined almost 12%, from 60.5 per 1,000 teenage girls in 1991 to 53.3 in 1998 as seen in the following table. This was slightly higher than the national rate of 51.1 in 1998, which has declined 17.7% since 1991.

TABLE 5. TEENAGE PREGNANCY RATES PER 1,000 FEMALE TEENAGERS, INDIANA AND UNITED STATES, 1991 AND 1998

	1991			1998		
Age Group	**15 - 19**	**15 - 17**	**18 - 19**	**15 - 19**	**15 - 17**	**18 - 19**
Indiana	60.5	35.2	95.2	53.3	28.5	89.5
% change, 1991-1998				-11.9%	-17.9%	-6.0%
United States	61.2	38.7	94.4	51.1	30.4	82.0
% change, 1991-1998				-17.7%	-21.4%	-13.1%

Source: Centers for Disease Control and Prevention

Studies have shown that children born to teenage mothers are more likely to end up in poverty; following that logic, a higher teenage pregnancy rate should lead to a higher poverty rate for children. However, Indiana does not follow this pattern, and actually has a *higher* teenage pregnancy rate but a *lower* poverty rate for children than the national averages.

The teenage pregnancy rate for 18-to-19 year olds was much higher than the rate for 15-to-17 year olds in Indiana (89.5 versus 28.5 in 1998) as it was in the nation. The rates for both groups declined between 1991 and 1998, however, the decline in the 18-to-19 year old group in Indiana was three times smaller than for the 15-to-17 year old group (-6.0% versus -17.9%).

Female Head of Households

The percentage of female-headed households with children can be another indicator of social well-being. Studies have shown that children in these households are more likely to live in poverty. The 2000 Census showed that Indiana's percentage of female head of households with children was 6.9%, slightly lower than the national average of 7.2%. Although the percentage of female head of households with children decreased between 1990 and 2000, the national average showed a larger decline than Indiana (7.1% in Indiana in 1990 versus 7.6% in the nation).

Early Childhood and Maternal Health

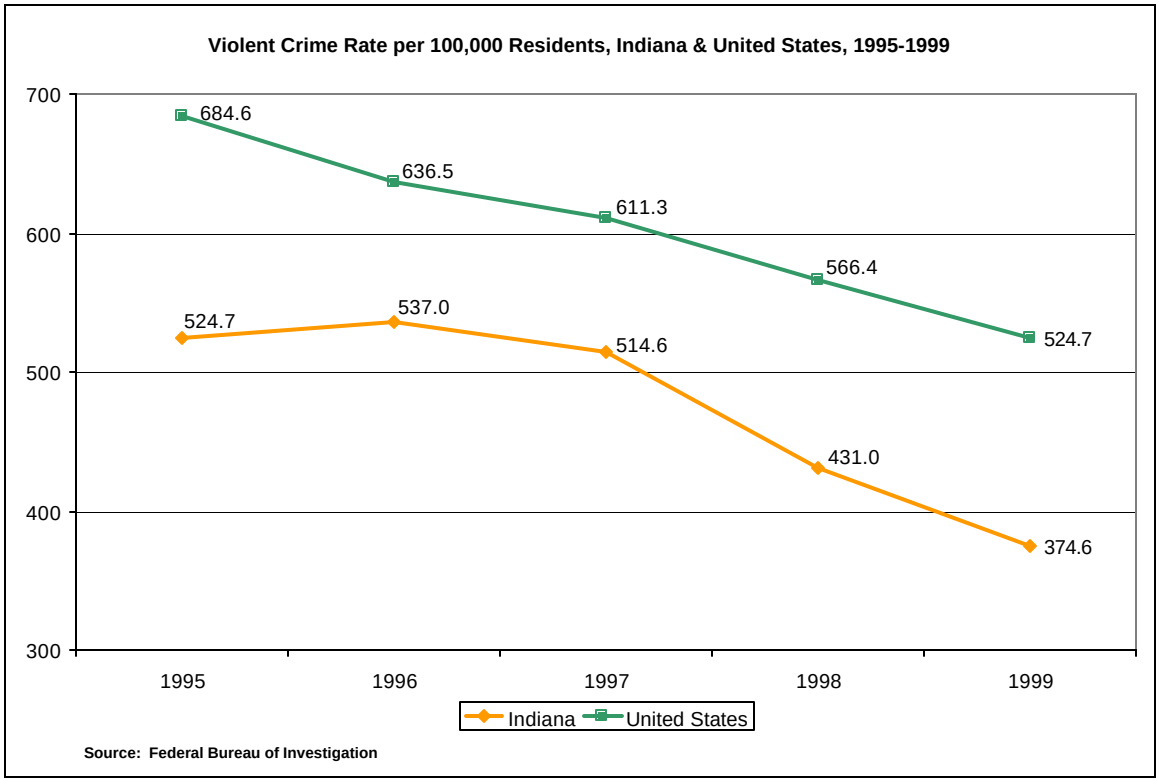
Infant mortality, low birth weights, and the percentage of young children current on their vaccinations are three indicators that can be used as a proxy for the level of healthcare a state's children and pregnant women receive. According to the CDC, Indiana's infant mortality rate varied between 1997 and 1999. In 1997, the rate was 7.4 deaths per 1,000 live births, compared to 5.1 in 1998, and 7.8 in 1999. The national infant mortality rate ranged between 7.1 and 7.2 during that time frame. Indiana's 1997 and 1999 rates were higher than the national rate, while its 1998 was lower.

Low birth weight is one of the leading causes of death in children under one year old. Approximately 7% of babies born in Indiana had low birth weights in 2000, which was slightly lower than the national rate of 7.6%. Racially, the percentage of low birth weight babies was lower for Indiana's minority populations than those of the nation, while the State's percentage for Caucasian babies was higher.

Children receive several types of vaccinations for disease prevention, such as tetanus, typhoid, measles, and mumps, before they are three years old. The percentage of children aged 19-to-35 months vaccinated against each of the various diseases ranged from 83% to 94% for the nation in 1999. In Indiana, the percentage for each vaccine ranged from 78% to 94%. Indiana's coverage was comparable to the nation for only one childhood disease (Hib – Haemophilus b conjugate), and lower than the national average for all of the other vaccines tracked by the CDC.

Violent Crime

The violent crime[3] rate is another indication of how well a society is doing. As seen in the chart below, Indiana's violent crime rate has consistently been lower than that of the nation since 1995 and has been declining since 1996.



[3] Violent crimes are murder, manslaughter, aggravated assault, robbery, and forcible rape. Due to changes enacted by the Federal Bureau of Investigation's methodology, data from 1995 and later can not be directly compared to data from previous years.

Kids Count Indicators

The *Kids Count Data Book*, produced by the Annie E. Casey Foundation, is an annual assessment of the overall welfare of children using 10 indicators in three areas: health, adequacy of income, and educational attainment. The *Kids Count* rankings provide a combined assessment of a state's situation with regard to children and a way to compare a state to others over time.

Indiana ranked 15th in 2001 (based on data from 1998) on the overall welfare of its children. Its highest-ranking indicators (scoring the best) were 4th in high school dropout rate and single parent families, 7th in teens not in school and not working, and 8th in children in poverty. Its worst rankings were 32nd in low birth weight babies and 31st in infant mortality rates. On the positive side, Indiana ranked number one in improvement of rank between 1990 and 1998, climbing 11 spots in the overall rankings.

Key Demographic Findings

- Indiana's population growth was weak, growing only 10.7% between 1980 and 2000, which was half as much as the nation. Almost 90% of Indiana's population growth over the last 20 years occurred in the 1990s, with most due to natural change.

- Indiana's age distribution basically matches that of the nation. Within the different age groups, Indiana saw the greatest increase in persons ages 45-to-54, and the greatest decrease in the 25-to-34 age group.

- Indiana's population is less diverse than the nation; however, it has gotten more diverse over the last 10 years, with its non-Caucasian population increasing from 9.4% of the total population in 1990 to 12.5% in 2000. Although Hispanics accounted for 3.5% of the total population in 2000, this ethnic group grew twice as fast over the last 10 years in Indiana than the nation.

- Indiana had mixed results when it came to the well-being of its residents. Indiana's poverty levels, percentage of female head of households with children, and participation in federal nutrition programs were lower than national averages, but the teenage pregnancy rate was higher than the national average. The same was true of child and maternal health in Indiana. Indiana's infant mortality rate was slightly higher than the nation in 1999, while its percentage of low birth weight babies and young children receiving their vaccinations were slightly lower.

- The educational attainment of the populace in Indiana increased between 1990 and 2000, but lags significantly behind the nation with respect to the percentage of adults 25 and older with a college degree. Indiana also lags the nation in the percentage of individuals with an Associate degree, and this percentage has been decreasing at both the State and national levels. However, the educational system within Indiana appears to be improving with decreases in student-to-teacher ratio and increases in its spending-per-student, SAT scores, and graduation rates. Its ACT scores remained steady over the last five years at a level slightly above the national average.

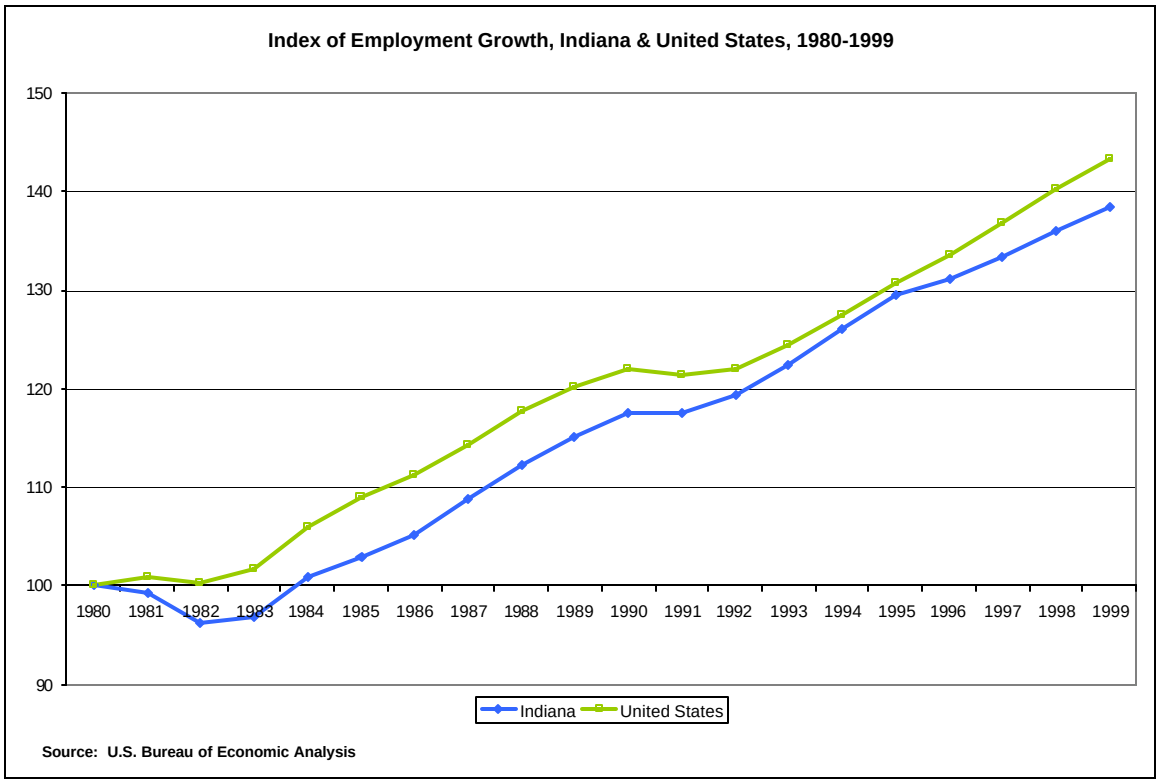
- Indiana ranked 15th in 2001 (based on 1998 data) in the *Kids Count* state rankings, which rates the overall well being of children, improving 11 spots between 1990 and 1998.

Economic Performance

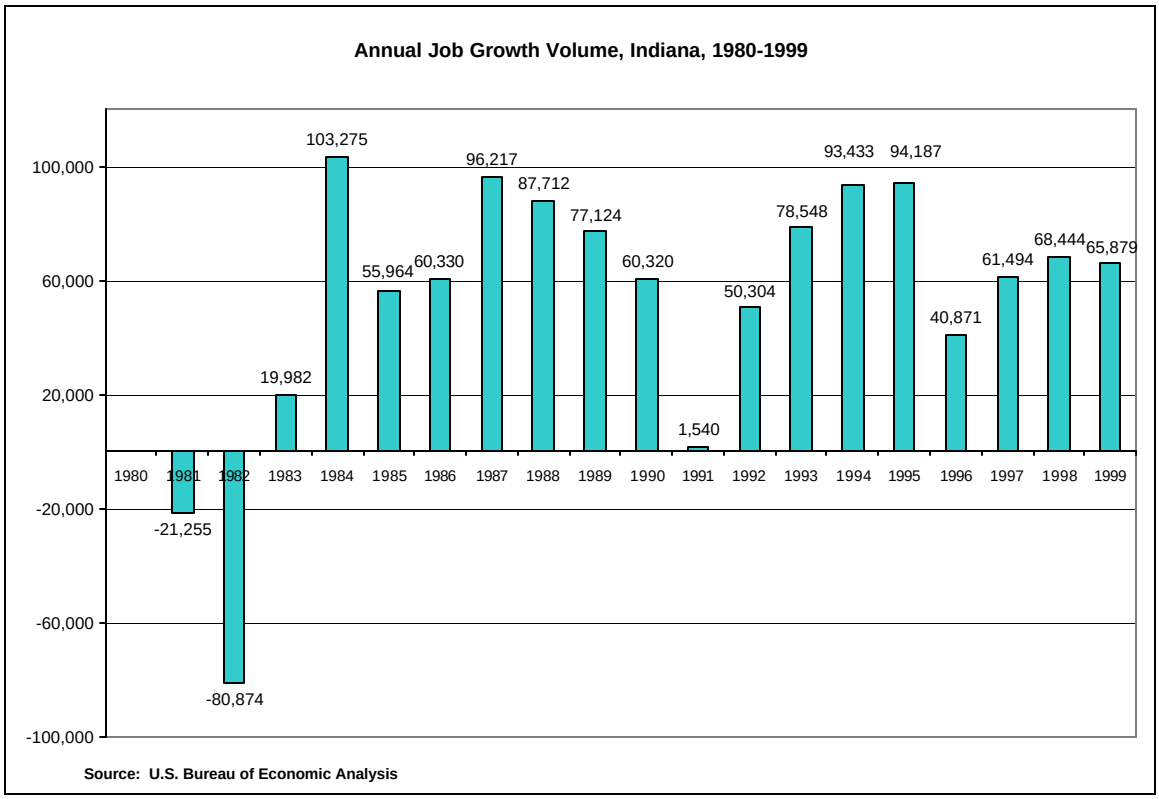
An evaluation of Indiana's economic performance provides a clear picture of the current position of the State's economy. Economic performance is measured in terms of employment growth, labor force participation, unemployment trends, commuting patterns, and income.

Employment Growth

Employment growth is one of the fundamental indicators of economic vitality in an area. Indiana's total employment was 3,645,725 in 1999. As seen in the following chart, employment increased 38.5% between 1980 and 1999 in Indiana, while the national growth was 43.4%. After losses in 1981 and 1982, the number of jobs in Indiana grew steadily. Indiana's growth rate was about 5% less than the nation's for most of the last 19 years.



As illustrated in the chart on the following page, the number of jobs that gained or lost each year varied greatly. Other than sustaining losses in the first couple of years and very slow growth during the 1991 recession, Indiana has had between almost 20,000 and just over 100,000 new jobs created each year.



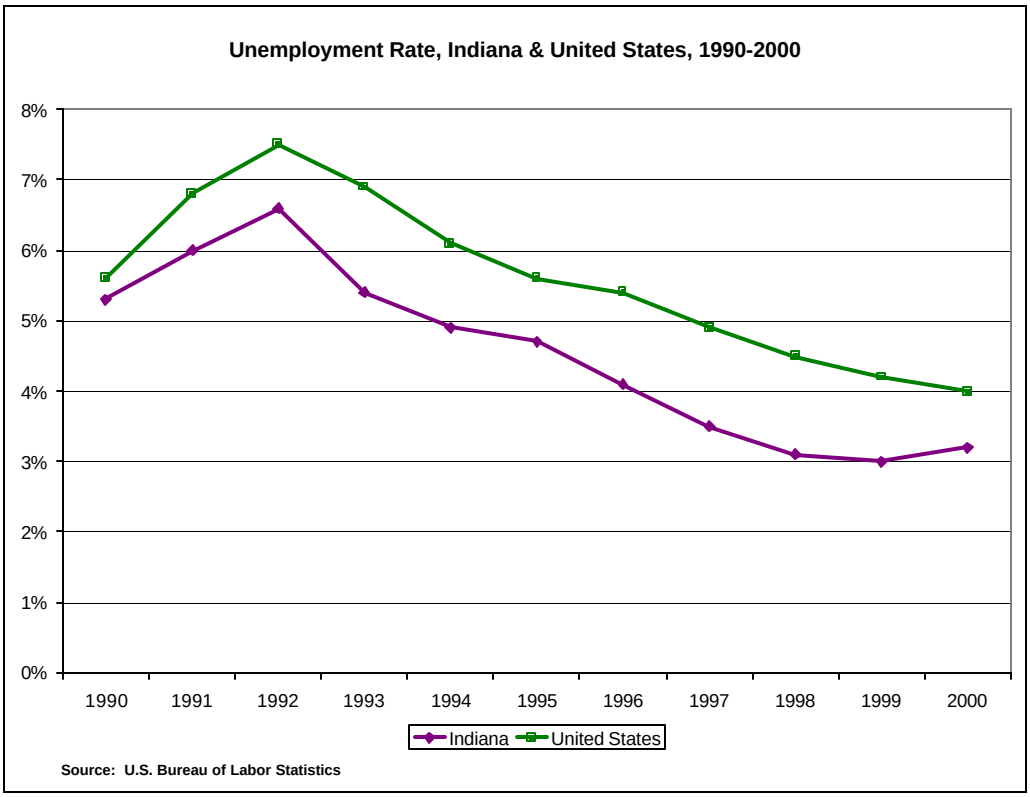
Labor Force Participation Rate

The labor force participation rate (LFPR) is the adult population aged 18 to 69 that is employed or unemployed and seeking a job, expressed as a percentage of the total working age population. Residents not participating in the workforce may be retirees, students, stay-at-home parents, disabled individuals, people too discouraged about their employment opportunities to continue to look for work, or individuals that have another means of income and do not necessarily need to work.

The LFPR in Indiana was slightly higher than that of the nation in both 1999 and 2000. Indiana's LFPR was 79.4% in 1999, decreasing to 78.2% in 2000. The LFPR for the nation was 78.6% in 1999, dropping almost 2% to 76.7% in 2000. The decrease in the LFPR occurred at the State and national levels because the size of the adult population grew faster than the number of people in the labor force.

Unemployment Rate

Indiana has consistently had a lower unemployment rate than the nation over the last 10 years, as seen in the chart on the following page, illustrating the resiliency of the employment base in the State to swings in the national economy. Despite the recent downturn in the national economy, Indiana has still maintained a lower unemployment rate than the nation. The July 2001 unemployment rate in Indiana was 3.9%, while the national rate was 4.5%. The combination of a high LFPR and a low unemployment rate indicates that there is a tight labor market within Indiana, with very little workforce flexibility.



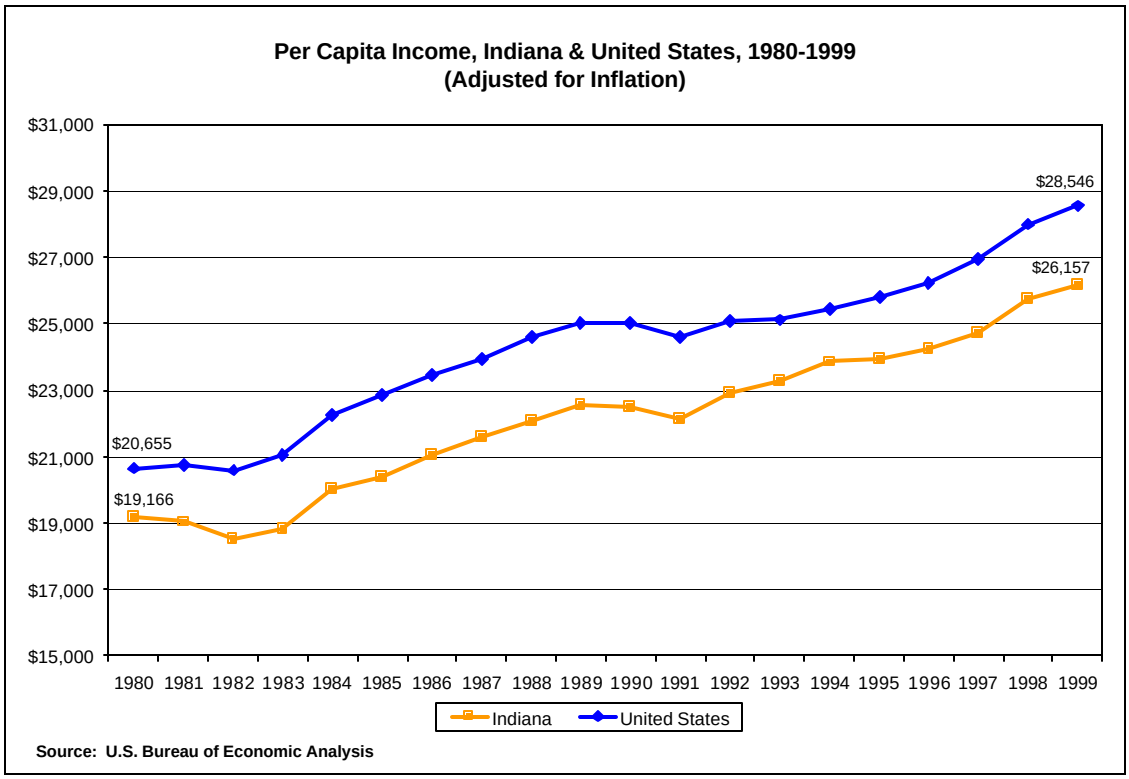
Commuting Patterns

The 1990 Census provides the most recent data on commuting patterns. As of 1990, 4.8% of Indiana's residents commuted out of the state to work, which was higher than the national average of 3.5%. This higher average is most likely related to strong urban areas adjacent to Indiana in another state, including Chicago, Illinois; Cincinnati, Ohio; and Lexington, Kentucky, which is supported by the fact that the vast majority of those working outside the state worked in one of the neighboring states.

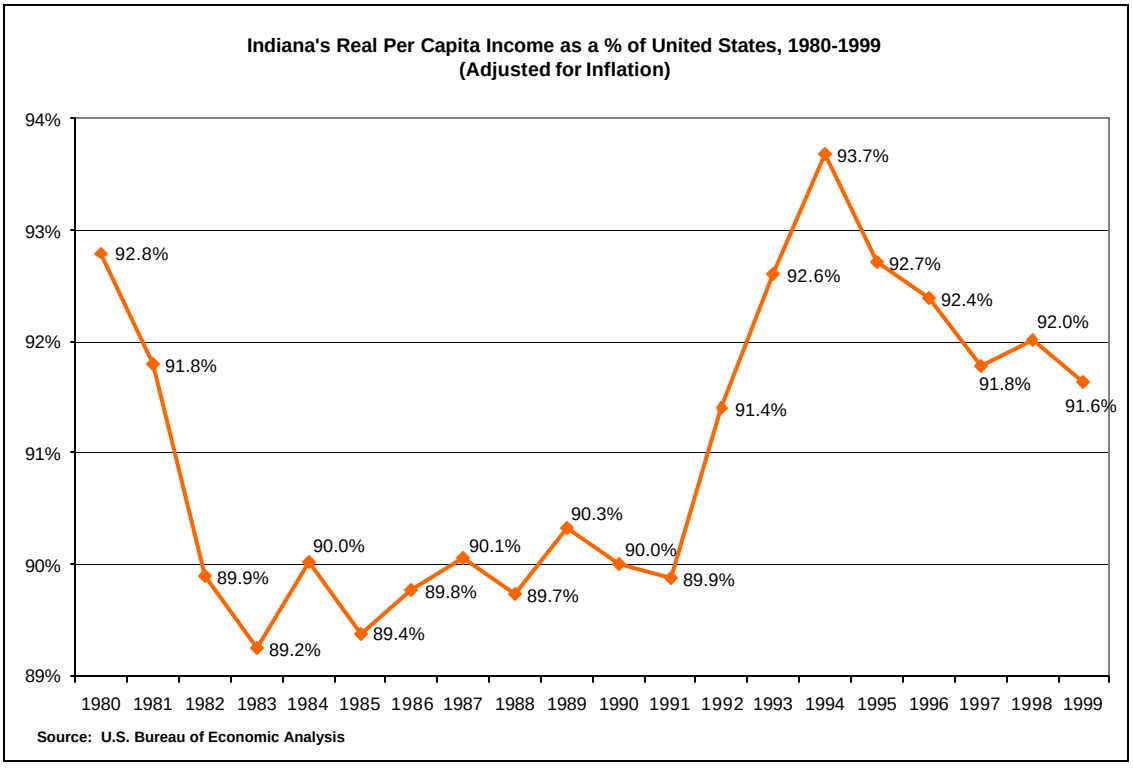
Within the State, most of Indiana's residents worked in the county they lived in (75.3%) which was consistent with the national average (76.1%). Of the people working in Indiana, about 3% did not live in the State, 90.3% of which lived in one of the four neighboring states.

Income

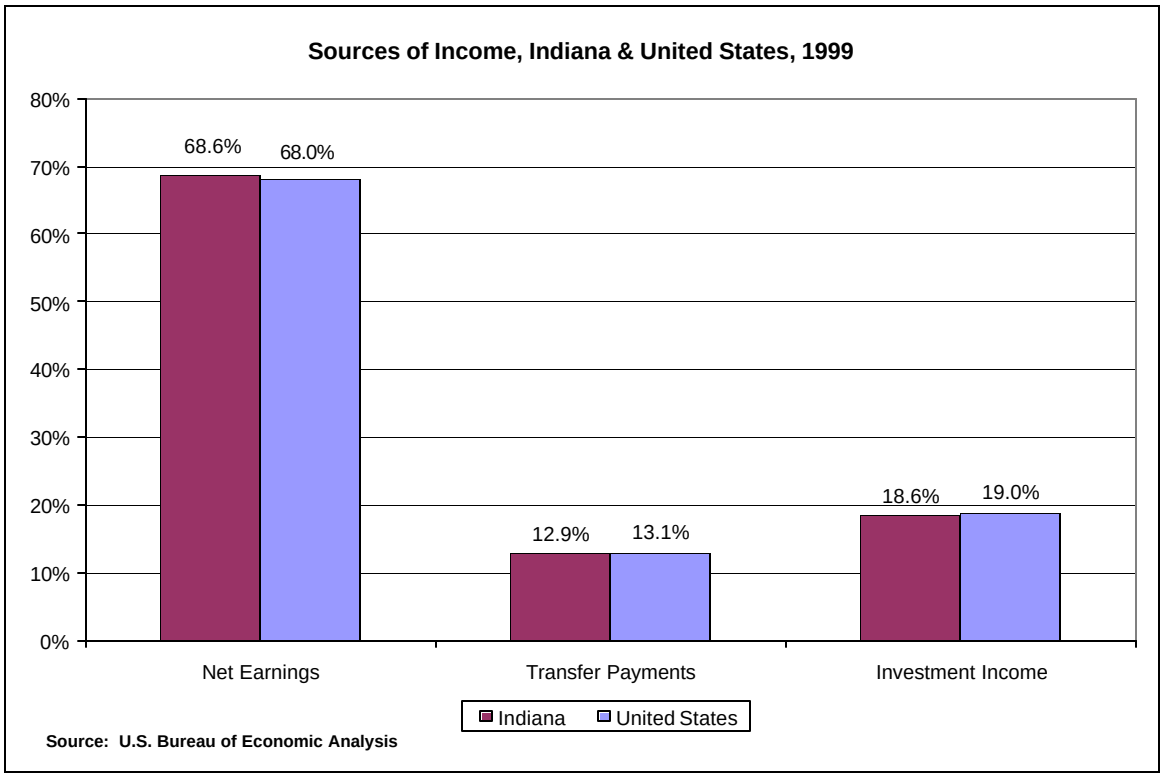
Per capita income is one of the most informative indicators about the relative economic position of an area. The chart on the following page shows the trend in per capita income for Indiana and the United States between 1980 and 1999, adjusted for inflation. Real per capita income (RPCI) in Indiana increased from $19,166 in 1980 to $26,157 in 1999, but lagged behind the national average for the entire time period.



As seen in the chart below, Indiana has been between 89.2% and 93.7% of the national average since 1980. It took the State almost 15 years to recover from recession in the early 1980s. Since 1994, when the average peaked at 93.7%, Indiana's RPCI has been losing ground to the national average and was at 91.6% in 1999.

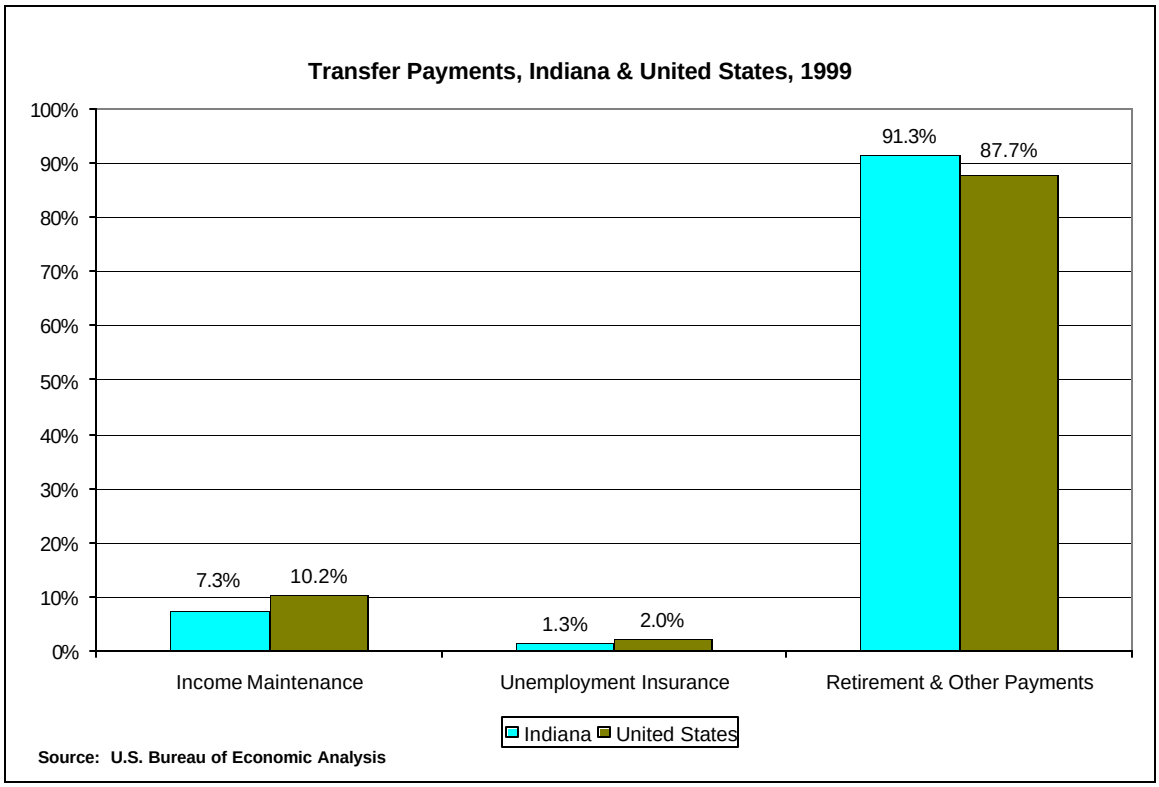


A review of the sources of personal income also helps to characterize the current economic well-being of Indiana residents. The primary sources of personal income are earnings, transfer payments, and investment income. Transfer payments are comprised of various government assistance programs, such as Social Security, Medicare, and welfare payments. Investment income is made up of dividends, interest payments, and rent from investment properties. The following chart shows a breakdown of income sources for Indiana and the United States in 1999.



The percentage of income in each category was similar for Indiana and the nation. However, there were differences in the breakdown of the Transfer payments category. Three categories make up Transfer payments: income maintenance, retirement and other payments, and unemployment insurance. Income maintenance includes supplemental security income (SSI), aid to families with dependent children (AFDC), and food stamps. Retirement and Other Payments includes retirement, Medicare, and Veteran's benefits.

As seen in the chart on the following page, Income Maintenance was about 3% lower in Indiana than the nation, mostly due to smaller percentages of SSI and AFDC. This smaller percentage of government aid matches the previously reported poverty data showing Indiana having a lower percentage of children in poverty. Retirement and Other Payments in Indiana was about 4% higher, mainly due to higher percentages of retirement payments.



Key Economic Performance Findings

- Employment in Indiana grew 38.5% between 1980 and 1999 for a total employment of 3.6 million in 1999. This rate of employment growth was slower than the nation.

- Indiana's labor market was tight with a high labor force participation rate (LFPR) and low unemployment rate. In 2000, the LFPR in Indiana was 78.2%, which was higher than the national LFPR of 76.7%. Indiana's unemployment rate has also been consistently lower than the nation's in the 1990s. These statistics indicate that there is very little workforce flexibility in Indiana.

- Indiana's real per capita income (RPCI) was $26,157 in 1999, about 91.6% of the national average. Indiana's RPCI has been consistently lower than that of the nation since 1980, and has been losing ground to the national average since 1994.

- Indiana residents had a smaller percentage of income attributed to supplemental security income and aid to families with dependent children, and a higher percentage of retirement payments than the national average.

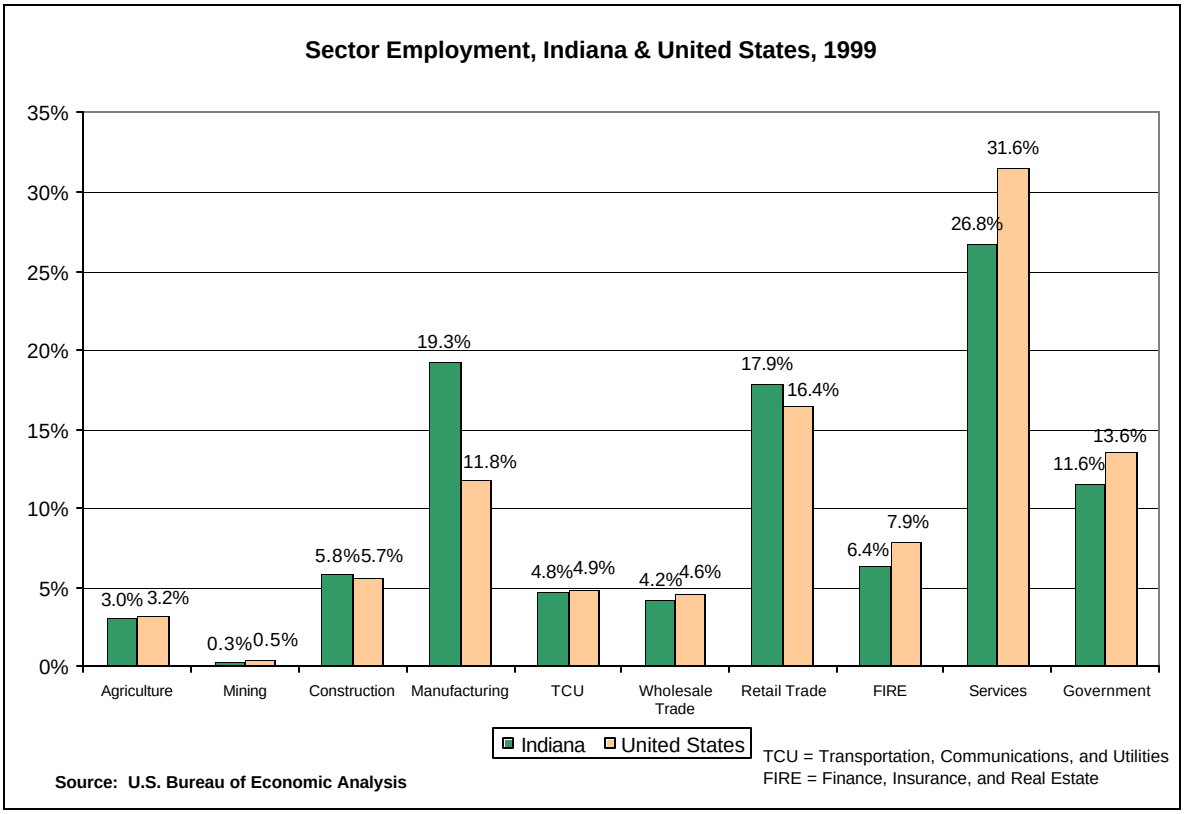
Economic Structure

The economic structure of an area is comprised of the mix of industries operating in the economy, including the various jobs within that framework. Examining Indiana's economic structure provides insights into the current state of the economy, and helps to identify trends that will influence the economy in the future.

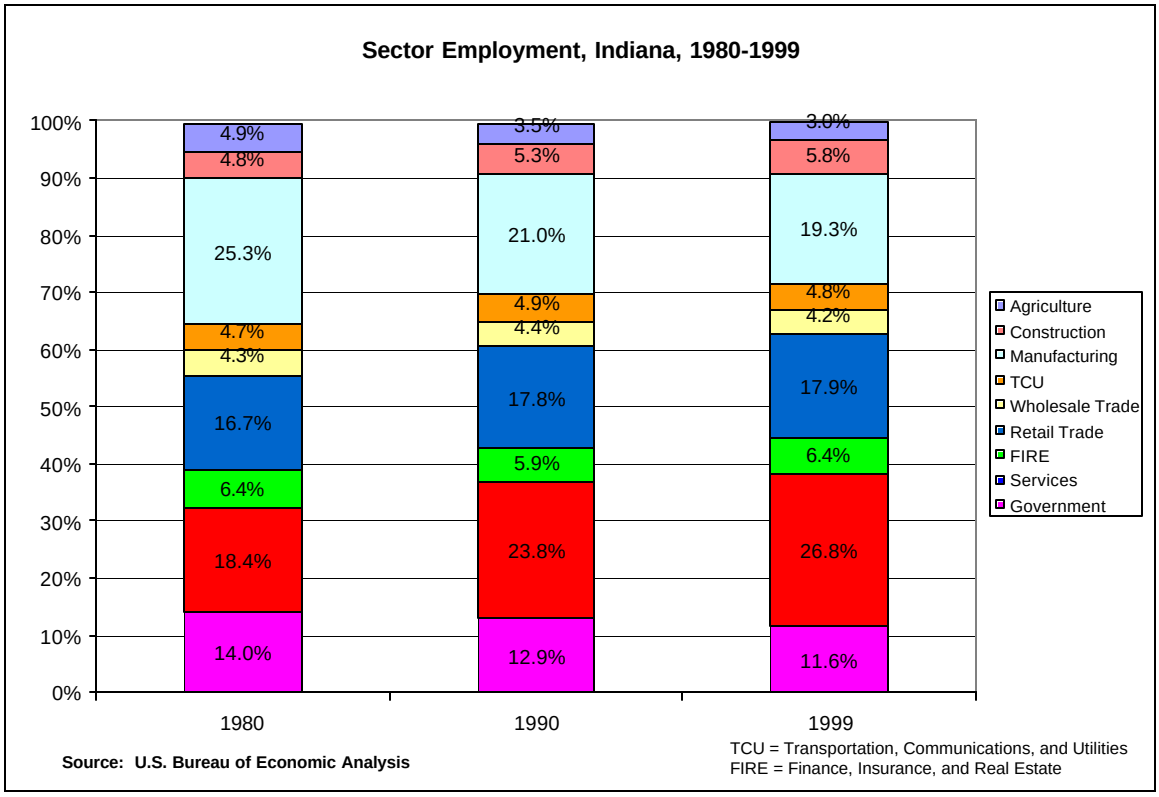
Sector Employment

An assessment of each sector's contribution to statewide employment and earnings identifies the major economic engines of the State's economy. Changes in the nature of the economy have led to alterations in business structure. The shift from an agrarian to an industrial to an information economy has caused shifts in the concentrations of employment. The analysis also shows whether the economy is dependent on one sector or is well diversified, which affects the health of and wealth creation in the state.

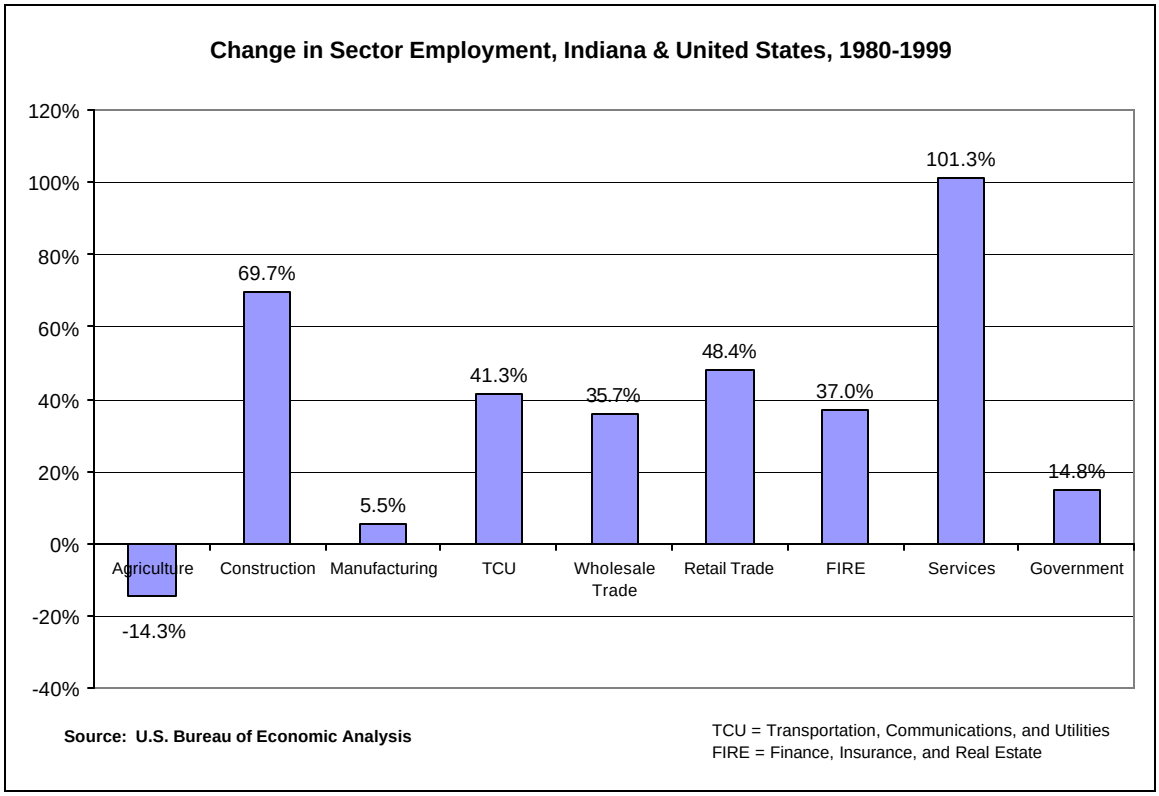
The following chart compares sector employment in Indiana and the nation in 1999. Indiana's largest sectors were the Services, Manufacturing, and Retail Trade, which accounted for 64% of total employment. Indiana's Manufacturing sector was much larger, on a percentage basis, than the nation, while the Services sector was smaller than the nation. The remaining sectors were within 2% of the national average.



The following chart shows sector employment trends in Indiana between 1980 and 1999. The changes in sector percentages support the statement that Indiana, along with the United States as a whole, is shifting from a tangible goods producing nation (losing share in Agriculture and Manufacturing) to an information-based, service economy (gaining share in Services and Retail Trade). The largest shifts have occurred in the Services and Manufacturing sectors. In 1980, the Manufacturing sector was the largest sector with Services second. By 1999, like many other states, Indiana's Manufacturing and Services sectors had switched places. Most of the loss in Manufacturing and gain in Services occurred during the 1980s. The Mining sector has been excluded from remaining analysis in this entire section because it accounts for less than 0.5% of total employment in Indiana.



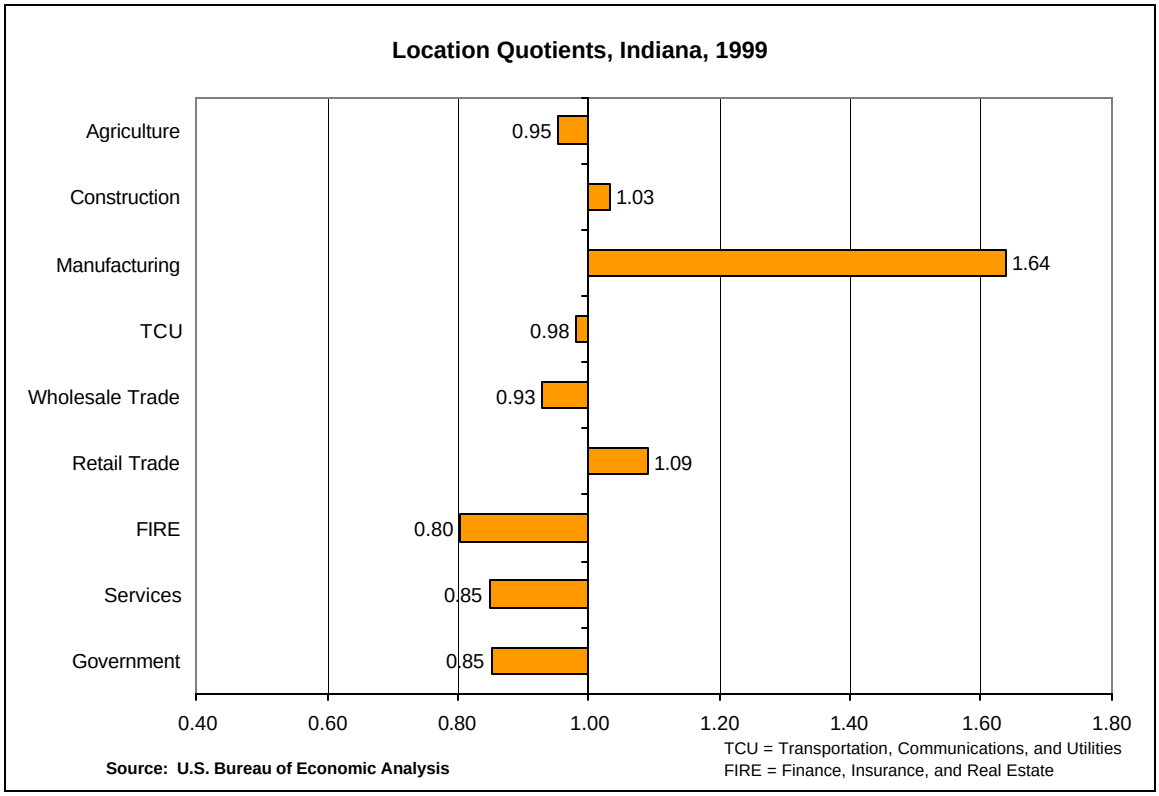
As discussed earlier, total employment increased 38.5% in Indiana between 1980 and 1999. Even though there was an overall gain in employment, some sectors lost employment, as seen in the chart on the following page. Interestingly enough, the Manufacturing sector actually gained employment even though its share of total employment decreased. This is because of the higher rates of employment growth in the other sectors. As would be expected, the Services sector saw the largest percentage growth between 1980 and 1999.



Location Quotients

Location quotients are used to gauge both the importance of individual sectors and their relative competitiveness, and are calculated by comparing the contribution of each sector's statewide employment to the percentage contribution of that sector nationally. A location quotient of 1.0 indicates that a sector is providing the same percentage of total employment statewide as nationally, while scores above or below 1.0 represent relatively larger or smaller sectors.

As illustrated in the chart on the following page, overwhelmingly, Manufacturing is the only sector that employed a significantly higher proportion of the State of Indiana's workers than the nation. The Finance, Insurance, and Real Estate (FIRE), Services, and Government sectors had the lowest location quotients. The remaining sectors were relatively close to the national average.



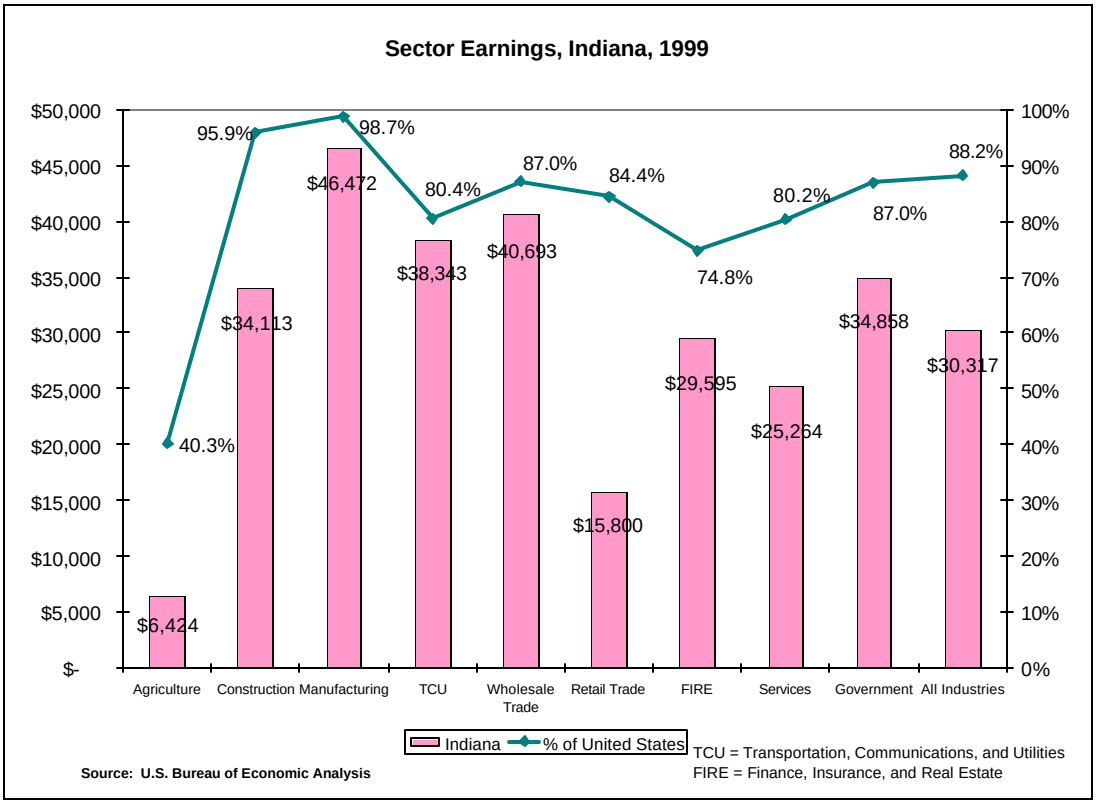
Earnings

Certain business sectors are invariably higher paying than others. If a state is gaining jobs in only low-paying sectors, then the economic vitality in the state may suffer. In 1999, the average annual earnings in Indiana was $30,317, 88.2% of the national average. The chart on the following page shows the earnings per sector for Indiana and the United States.

None of the sectors in Indiana had average annual earnings at the national level. The strongest earnings were found in the Manufacturing sector at 98.7% of the national average. The largest employment sector, Services, was at 80.2% of the national average.

Aside from the Agriculture sector, the FIRE sector had the weakest earnings in relation to the national average (74.8%). Given that the FIRE sector, in addition to the Wholesale Trade and TCU sectors, has some of the strongest earnings nationally, this discrepancy should be of concern to the State.

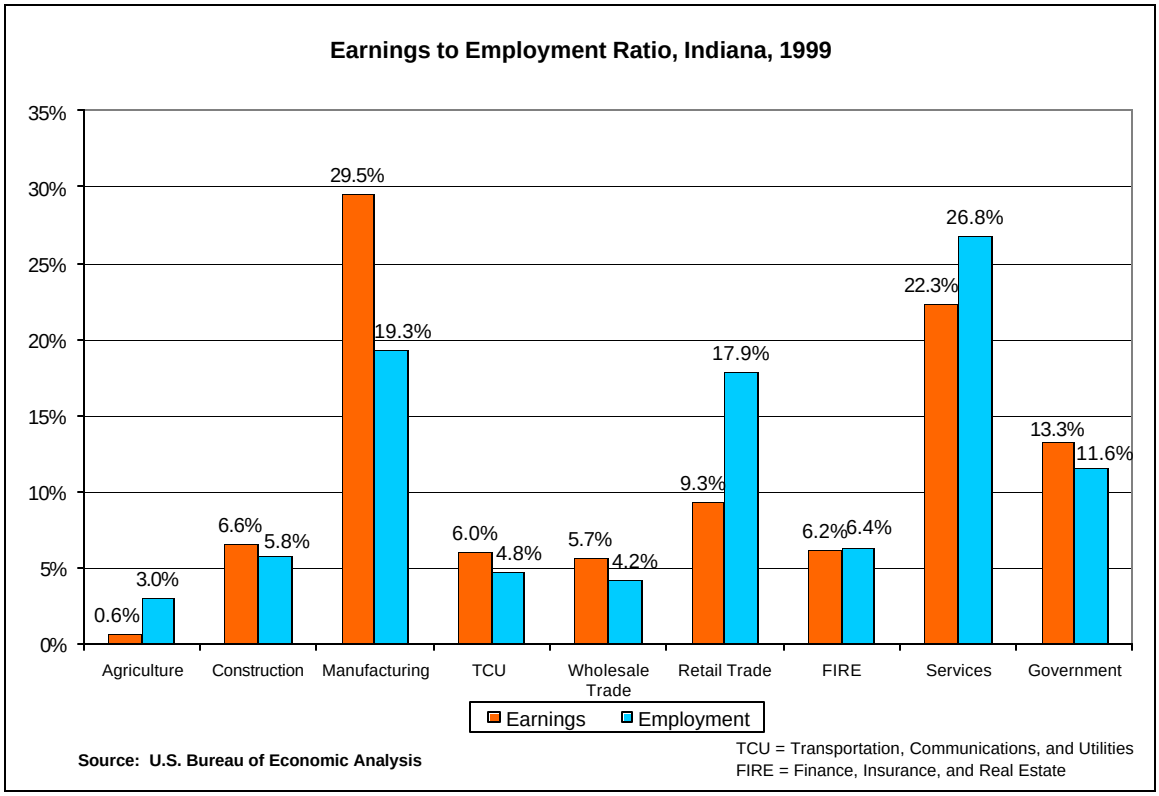
Of the sectors with the strongest earnings, Manufacturing is the only sector that accounted for a significant percentage of employment. The other major sectors in Indiana, Services and Retail Trade, have very poor earnings and account for a significant proportion of employment, which will affect overall per capita income in the State.



Earnings versus Employment

Looking at earnings versus employment provides a way to understand the impact that each sector has on the State's economy. If the percentage of total earnings for a business sector is higher than the percentage of employment, it is considered a "positive" ratio and indicates a sector that generates wealth in the State. The economy would gain the greatest benefit from having the largest sectors have the largest differential between earnings and employment, with earnings being larger.

As illustrated in the chart on the following page, the second largest sector, Manufacturing, had the largest positive earnings-to-employment ratio. However, this sector has decreased in percentage of total employment in Indiana over the last two decades. Therefore, the positive impact of this sector on Indiana's economy has lessened over time. The Services sector, the largest sector, had an overall negative ratio, which was due to Indiana's poor earnings in this sector. The Retail Trade sector, the third largest sector, had the worst earnings-to-employment ratio in Indiana.

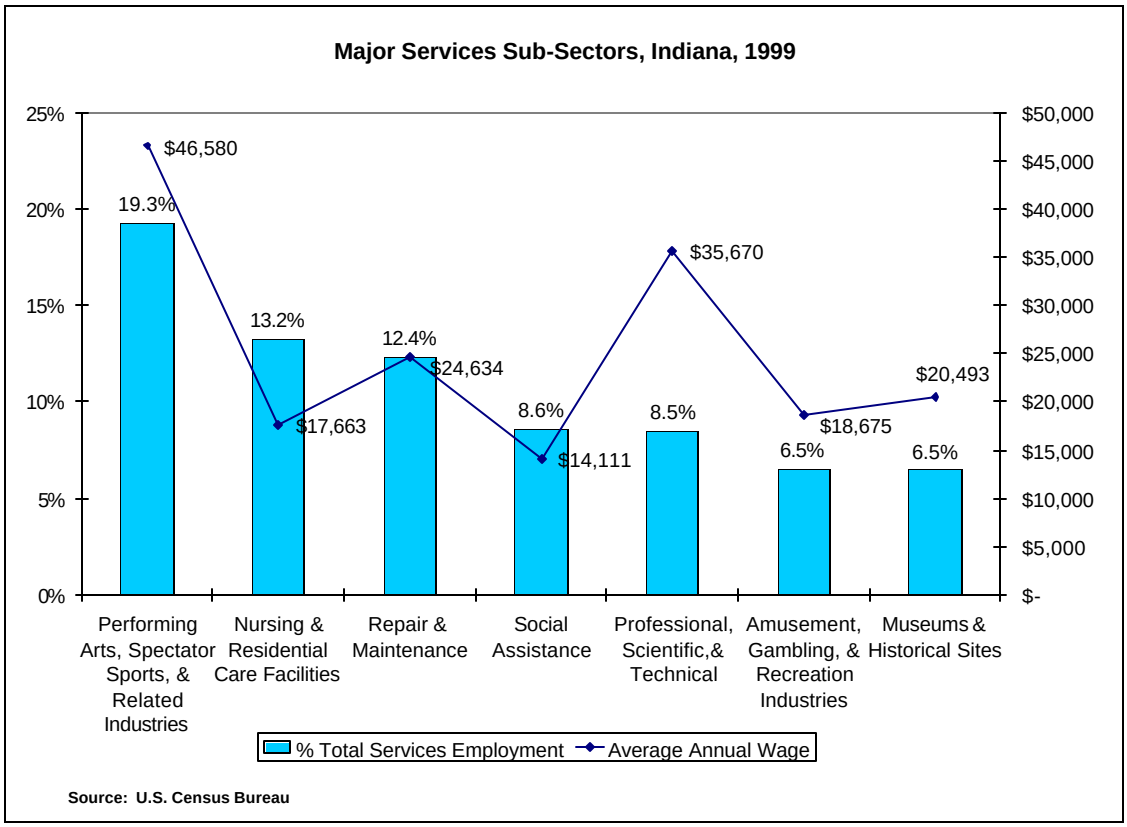


Services Sector Employment[4]

The Services sector is a dominant and growing part of Indiana's total employment. This sector consists of various industries from healthcare to education to dry cleaners. Because the Services sector is so large and the wages within the sector are so varied, the composition of this sector can greatly affect the economic well being of the State.

The chart on the following page shows the largest Services sub-sectors in 1999 in Indiana. The largest Services sub-sector is Performing Arts, Spectator Sports, and Related Industries, which accounted for nearly one-fifth of the total Services employment. This may be the result of Indiana being home to the Indianapolis 500, National Basketball Association and National Football League teams, and National Collegiate Athletic Association. This sub-sector was also the highest paying sub-sector as well. The remaining sub-sectors, with the exception of the Professional, Scientific, and Technical sub-sector, had weak earnings.

[4] The U.S. Census Bureau is now using the North American Industry Classification System (NAICS) instead of the Standard Industrial Classification System (SIC) to report industry data. Recent information on sub-sectors is only available using NAICS from the Census Bureau. NAICS has major 20 sectors as opposed to 10 by SIC. There is no "Services" sector in NAICS. For this section, Services is defined as the following NAICS sectors: Information; Professional, Scientific, and Technical Services; Administrative, Support, Waste Management, and Remediation Services; Educational Services; Health Care and Social Assistance; Accommodations and Food Services; and Other Services. As a result, the Services sector data using NAICS **will not match** sector data using SIC. Also, it is important to note that the Census numbers do not include self-employed persons or employees of private households; therefore, employment and earnings **will not match** the data presented in previous sections.



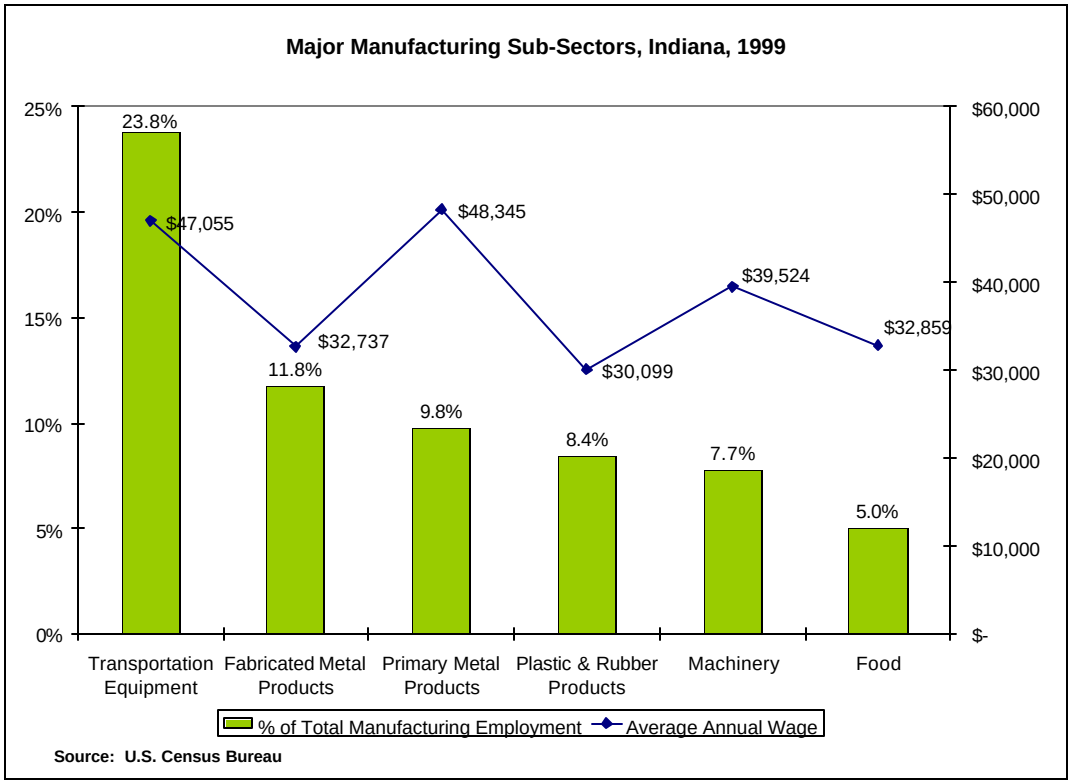
Manufacturing Sector Employment[5]

Manufacturing continues to be an important sector in Indiana's economy. Even though it has lost some of its share to the Services sector over the last 20 years, the Manufacturing sector did have a small gain in employment over the last two decades. Because Manufacturing accounts for almost one-fifth of total employment, a closer examination of the sub-sectors comprising the sector is provided.

The chart on the following page shows the largest Manufacturing sub-sectors in Indiana in 1999. These sub-sectors accounted for two-thirds (66.5%) of the Manufacturing employment in Indiana. Five of the largest sub-sectors are most likely strongly tied in to the large motor vehicle and parts production in the Midwest.

These sub-sectors were split between higher and lower paying jobs. Transportation Equipment, the largest sub-sector, had strong earnings as did Primary Metal Products and Machinery, all of which paid close to or over $40,000 per year. The remaining sub-sectors had weaker earnings, only paying around $30,000.

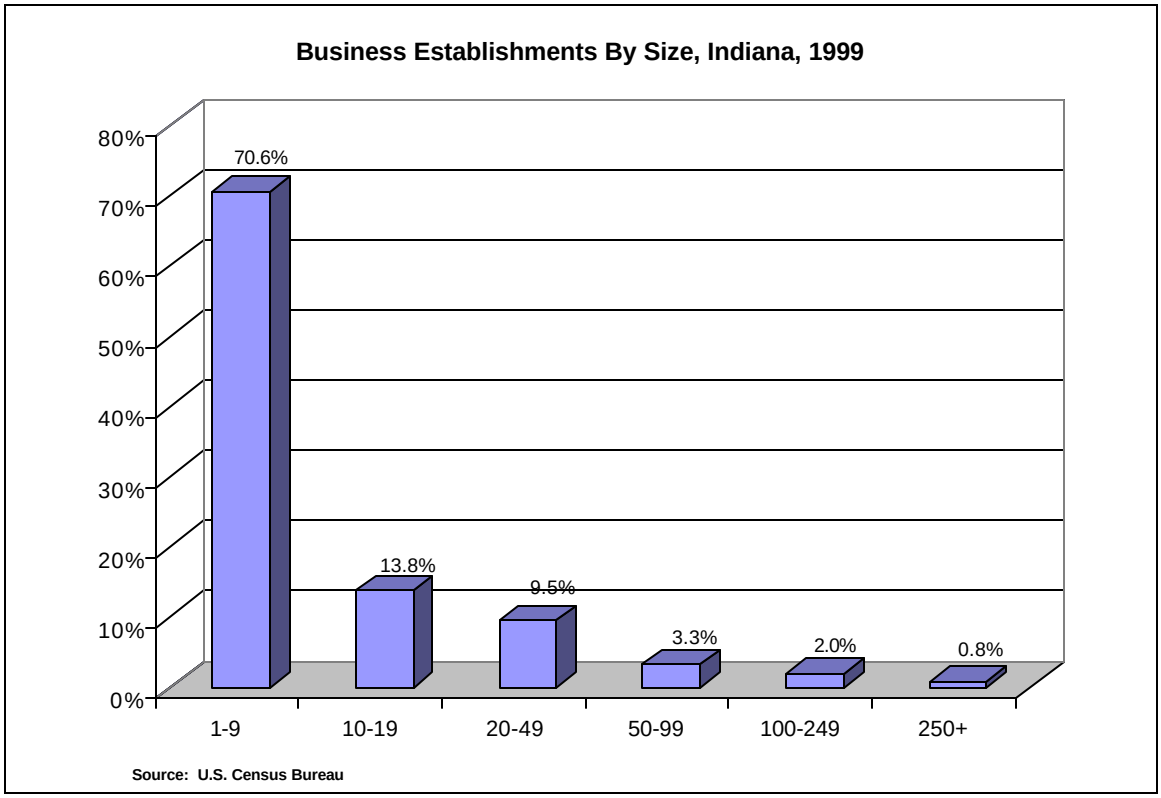
[5] As with the Services sector, recent information on Manufacturing sub-sectors is only available using NAICS from the Census Bureau. Although the category name is the same – Manufacturing – the composition of the sector is different, and sector data using NAICS **will not match** sector data using SIC.

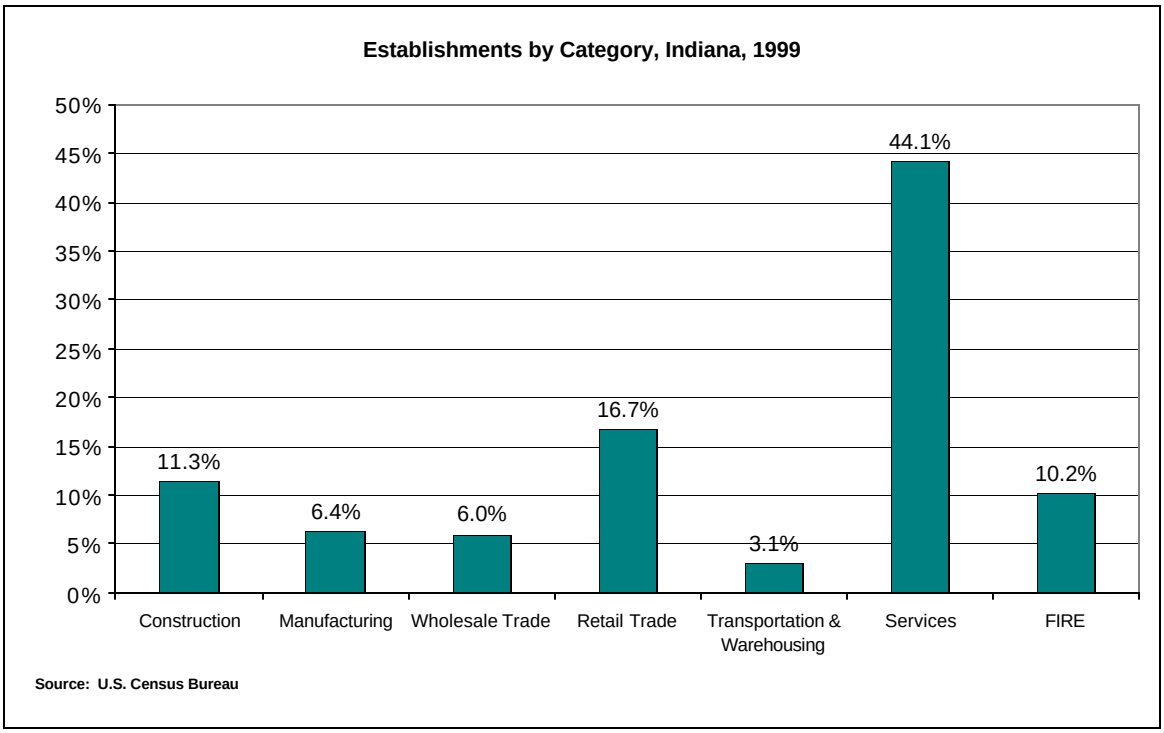


Employers

In 1999, there were 146,528 business establishments, not including sole proprietors or government facilities in Indiana. The vast majority of businesses employed less than 10 people (70.7%), as seen in the first chart on the following page. This percentage of small businesses was smaller than the nation (73.6%). Large companies that many people have historically looked to for lifetime employment, those with over 250 employees, accounted for less than 1% of establishments in Indiana.

The second chart on the following page illustrates the percentage of business establishments by major NAICS categories. Clearly, the Services sector has the greatest number of establishments, which is typical of national trends as employers in this sector tend to be smaller than employers in the Manufacturing sector, for example.





Note: FIRE = Finance, Insurance & Real Estate and Rental & Leasing; Services = Information; Arts, Entertainment & Recreation; Accommodations & Food, Professional, Scientific & Technical Services; Administrative Support, Waste Management & Remediation; education; Health Care & Social Assistance; and Other Services. Sectors with less than 1% of all establishments have not been included in the chart.

Self-Employment

Non-farm proprietorships gauge the level of entrepreneurial activity happening in a state. In 1999, non-farm proprietorships comprised approximately 13% of total employment, which was lower than the national average of 15.2%. While the actual number of non-farm proprietorships may not be too important, it does have implications for the type and quality of the workforce available in the State. For individuals who engage in entrepreneurial activity to be successful, they need to be creative, proactive, responsible, and critical thinkers with initiative, all of which are traits that employers seek in today's workforce.

While looking at the number of non-farm proprietorships is important in assessing the level of entrepreneurial activity, earnings of these firms measure the success of local entrepreneurs. Non-farm proprietorships in Indiana earned an average of $19,662 in 1999, 76.7% of the national average of $25,637. This demonstrates that not only does the State of Indiana have lower entrepreneurial activity, but that the ones who are engaged in non-farm proprietorships have weak earning power.

Key Economic Structure Findings

- Over the last 19 years, the Manufacturing sector's share of employment decreased from 25.3% to 19.3%, while the Services sector increased from 18.4% to 26.8%. This indicates that the State's economy is shifting from being manufacturing-based to a more service-oriented, information-based economy.

- None of the employment sectors in Indiana paid above national averages. The strongest sectors were Manufacturing and Wholesale Trade with average annual earnings exceeding $40,000. The weakest earnings percentage wise to national averages aside from the Agriculture sector was the FIRE sector. Average annual earnings in the FIRE sector were only 75% of the national average.

- Indiana's Services sector does not have a large percentage of its employment in higher paying, higher skilled sub-sectors. Only two of the seven largest Services sub-sectors paid over $35,000. The largest Services sub-sector (Performing Arts, Spectator Sports and Related Industries) is probably related to the sports of car racing, basketball, football, and college athletics located in the State.

- The percentage of employment in the Manufacturing sector was larger in Indiana than the nation. At the sub-sector level, employment is dominated by work associated with the motor vehicle and parts manufacturing industries located in the Midwest. Because of strong earnings in some sub-sectors, Manufacturing had a positive earnings-to-employment ratio.

- The vast majority of Indiana's non-government employers have fewer than 10 employees and were concentrated in the Services sector.

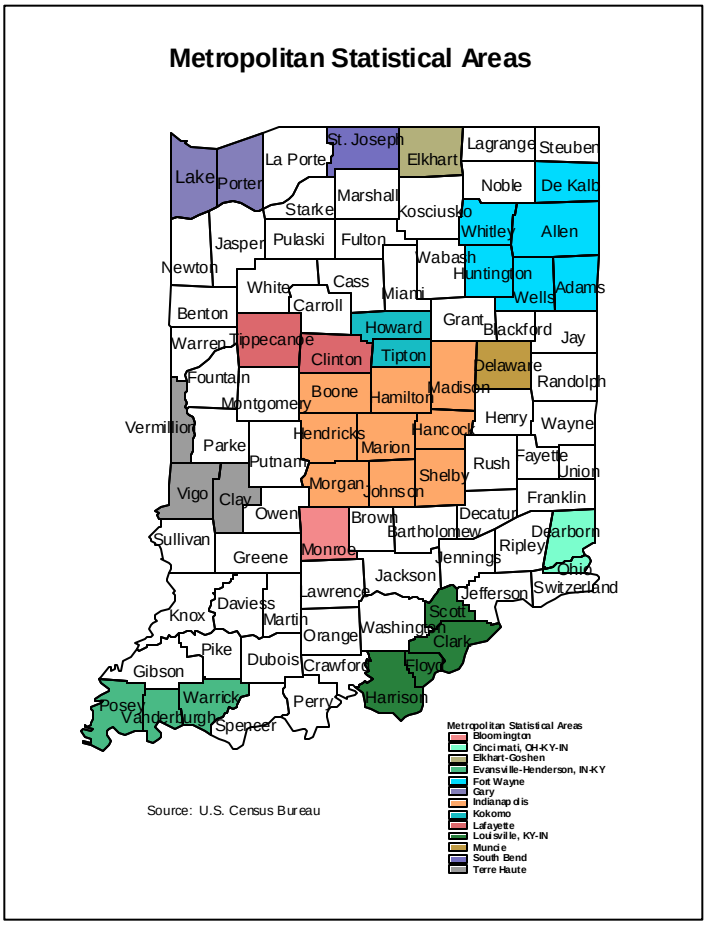
- Non-farm proprietors accounted for about 13% of employment in Indiana, which was less than the nation. Also, Indiana's non-farm proprietorships had weak earnings, averaging only 76.7% of the national average.

County Profiles

County level analysis of both demographic and economic indicators provides insight into how Indiana's economy is functioning within the State, and helps to identify any regional relationships. Patterns of population growth, job growth, sector employment, income, and poverty help show how economic prosperity is distributed throughout the State.

Metropolitan Statistical Areas

Indiana has 13 Metropolitan Statistical Areas (MSAs). By definition, MSAs have a highly populated central core county or counties, which may include adjacent counties if they have a high degree of economic and social ties to the core county. The U.S. Census Bureau changed the definition of some MSA boundaries between 1999 and 2001, and will eventually recalculate the data based upon these new MSA definitions. Only one MSA within Indiana was redefined. This was the Gary, IN MSA, which was a part of the Chicago-Gary-Kenosha, IL-IN-WI MSA in 1999, but was split apart in 2001. For this section, the 2001 MSA definitions are used.

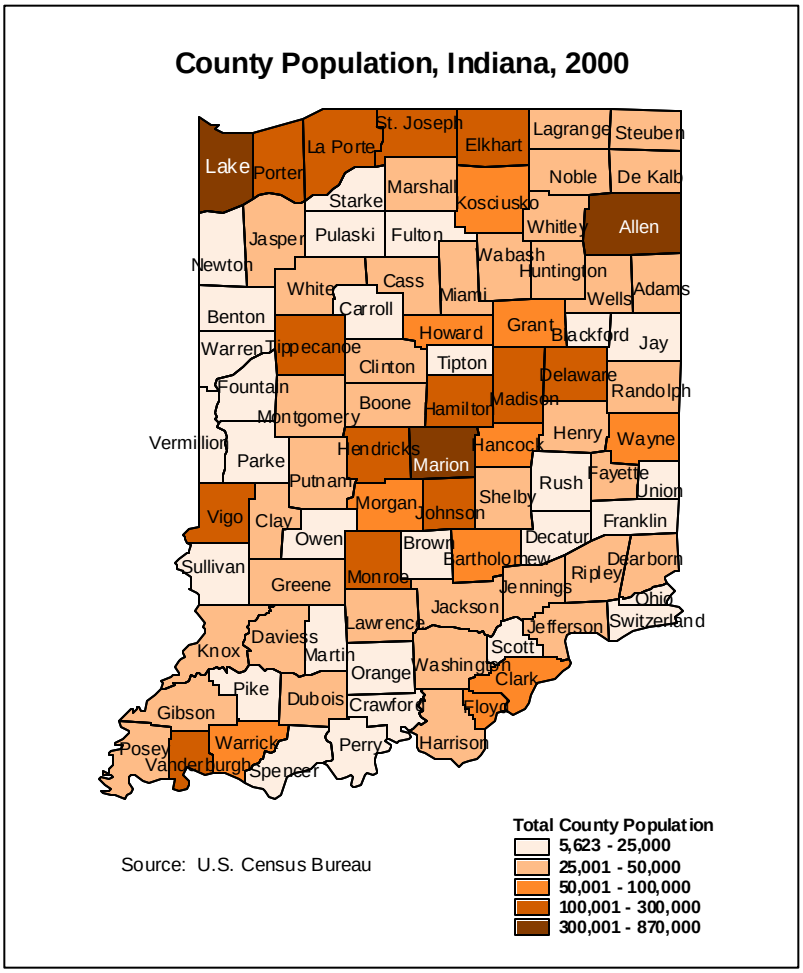


Among the MSAs in Indiana, there is a wide range of size, from single county MSAs to a nine-county MSA[6] (Indianapolis). Three of the 13 MSAs are multi-state with counties both in Indiana and adjacent states, illustrating the strong social and economic ties within these areas. This is both a positive and negative. It is positive because there are already strong relationships that extend beyond State boundaries, which establishes a framework in which future regional economic efforts can be built upon. It is potentially a negative in that these counties are not linked very strongly with their surrounding counties within Indiana, suggesting that the ability of these MSAs to act regionally within the State is not very powerful.

[6] Does not include the multi-state MSA of Cincinnati, which has a total of 12 counties but only two of which are located in Indiana.

Population

The map to the right shows the population at the county level within Indiana in 2000. The three most populous counties were located within three different MSAs - Marion County (Indianapolis) was the largest with a total population of 860,454; Lake County (Gary), second largest with a population of 484,564; and Allen County, (Fort Wayne), the third largest with a population of 331,849. The Indianapolis, Gary, and Fort Wayne MSAs combined accounted for 45.1% of the total population in Indiana. The other populous counties with over 100,000 persons were all located in one of the MSAs.

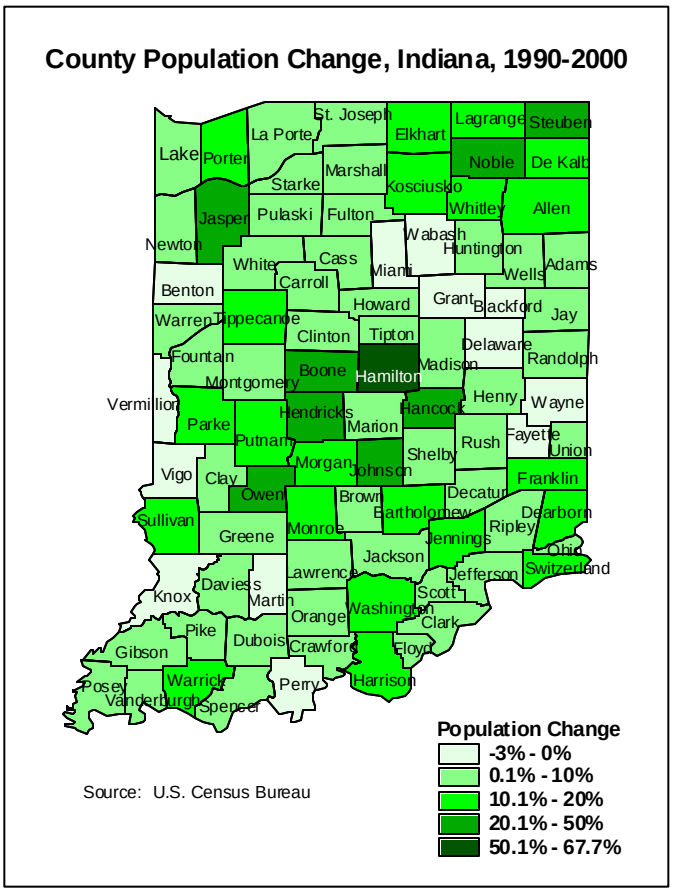


While the majority of the 92 counties in Indiana (71.7%) had fewer than 50,000 residents, these counties accounted for less than 30% of the total population in the State. This indicates that geographically, Indiana is a very rural state, but population wise, the majority of the populace resides in one of the urban centers.

Population Growth

The distribution of population growth across the State between 1990 and 2000 is shown in the map on the following page. Most of the counties with the largest population growth were in the counties surrounding the cities of Indianapolis (Marion County), Gary (Lake County), and Fort Wayne (Allen County) pointing toward suburbanization in these areas.

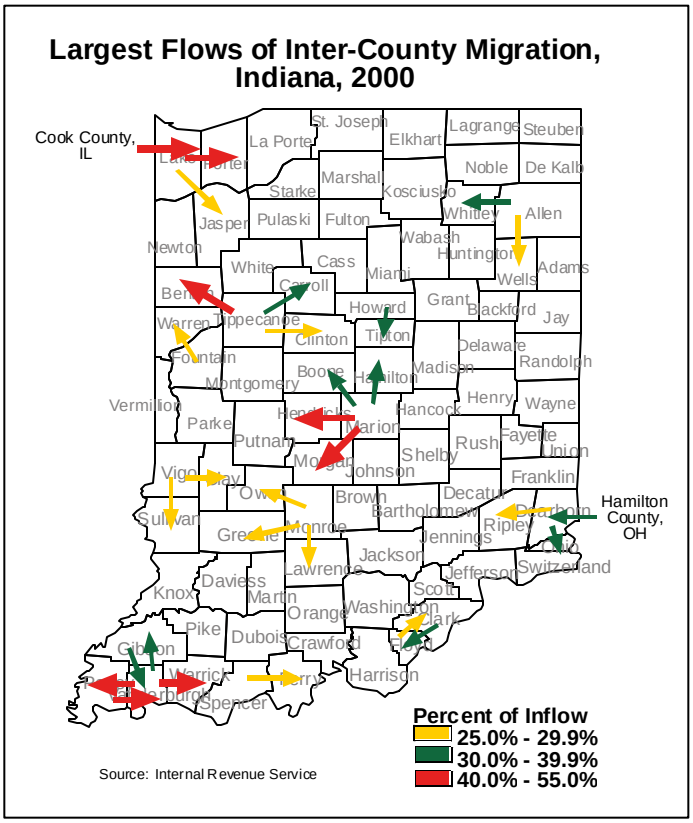
The overall rate of growth in Indiana between 1990 and 2000 was 9.7%. Fifty-nine of the 92 counties in Indiana had growth rates below the State average. Additionally, 13 counties lost some of, or just maintained, their population over the 10 years. These counties tended to be in rural areas, although two of the counties in the Terre Haute MSA (Vigo and Vermillion) lost population during this time period, as did the Muncie MSA (Delaware). The large number of counties below the national and State averages shows why the state has been unable to keep pace with the national growth rate.



Migration

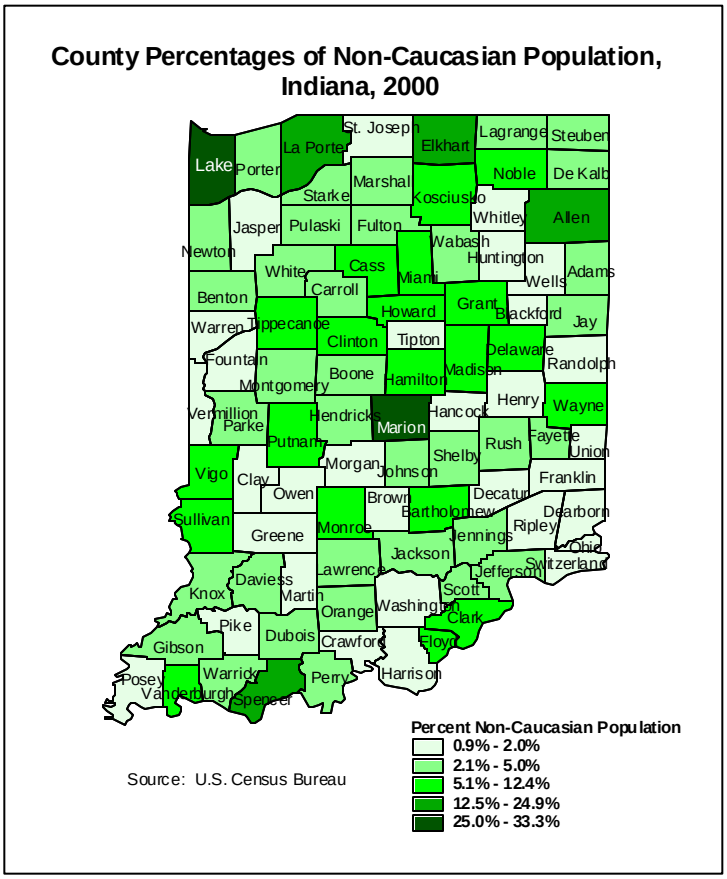
The Internal Revenue Service tracks migration patterns of residents on an annual basis. Information from the 2000 Statistics of Income clearly shows the suburbanization that is occurring around the urban centers of Indiana, and where there are strong regional ties within the State. The map below illustrates the largest flows of inter-county migration, where the percent of inflow measures where the largest percentage of the migrating population is going. For example, people from Marion County accounted for between 40% and 55% of the source of the in-migrating population into both Hendricks and Morgan counties between 1999 and 2000, and 30% to 40% of the in-migration into both Boone and Hamilton counties.

The strongest inter-county migration flows are clearly centered around the various MSAs in Indiana, supporting the connection that these counties have to one another, including the Evansville-Henderson MSA in southwestern Indiana, and the Indianapolis MSA. Both Lake and Dearborn counties have a significant amount of in-migration from urban centers outside the State: Cook County, Illinois, accounted for 40.5% of the people moving into Lake County; and Hamilton County, Ohio, accounted for 38.9% of the population moving into Dearborn County. Vigo County, which experienced a loss of population between 1990 and 2000 saw people move into neighboring Clay and Sullivan counties. Allen County is seeing movement from the core county into neighboring counties within the same MSA.



Race

As was discussed earlier, Indiana is less diverse than the nation with a non-Caucasian population of 12.5%. The minority population that was present in the State in 2000 was primarily concentrated in or around the various MSAs. The greatest concentration of non-Caucasian population was in Lake and Marion counties – as seen in the map to the right. These two counties are home to the largest cities in Indiana, Indianapolis and Gary.



Educational Attainment

At the county level, the most recent educational attainment data is from the 1990 Census. Although educational attainment levels have improved in Indiana and the nation between 1990 and 2000 as discussed previously, in all likelihood, the distribution of educational attainment within the State has probably changed very little. In other words, the percentages themselves have probably changed, but the counties within each tier should not have shifted very much. Maps depicting the distribution of educational attainment for both non-high school graduate and college graduates are shown on the following page.

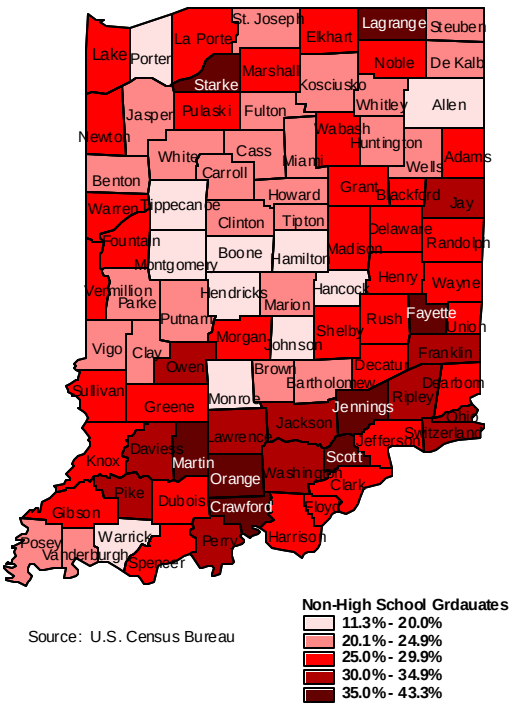
The southern and southeastern portions of the State, as illustrated in the first map on the following page, saw the highest concentrations of adults 25 and older without a high school degree, where over 30% of the adults did not graduate from high school. The lowest educational attainment levels were found in Crawford, Lagrange, and Scott counties, with 43.3%, 40.4%, and 40%, respectively, of the adult population lacking a high school degree. With the exception of Scott County, the lowest educational attainment rates were found in non-MSA counties.

Lower percentages of non-high school graduates were found in counties in or near larger metropolitan areas. All of these counties are also home or adjacent to a county where a large college or university currently exists. Therefore, while Indiana as a whole paces the nation in the percent of high school graduates, within the State, there are wide disparities in educational attainment.

As would be expected, the counties with the highest percentage of non-high school graduates had the lowest percentage of college graduates. The counties with the higher percentages of college graduates were located in an MSA, and were home to or adjacent to a county with a large university or college.

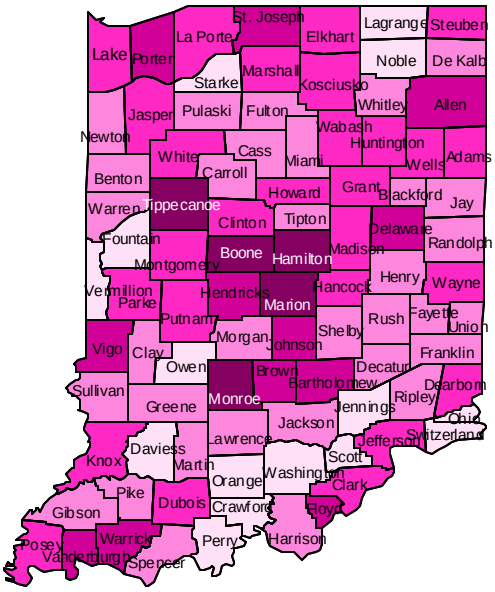
For example, Monroe County is home to Indiana University – Bloomington, the largest branch of the State university system. Purdue University, the other major university in Indiana is located in Tippecanoe County. Allen, Bartholomew, Boone, Brown, Floyd, Hamilton, Hendricks, Johnson, Marion, and Porter counties have or are adjacent to a county with a branch of Indiana University. Delaware County is home to Ball State University, Indiana State University in Vigo County, and the University of Southern Indiana in Vanderburgh County.

County Non-High School Graduates, Indiana, 1990



Source: U.S. Census Bureau

County College Graduates, Indiana, 1990



Source: U.S. Census Bureau

There are also 23 campuses associated with Ivy Tech State College, the State's technical college system, located in 14 administrative regions across the State.

The highest percentage of college graduates were found in Hamilton (36.2%) and Monroe (32.9%) counties. It is important to remember that the State of Indiana as a whole lags behind the national percentage of college graduates by over five percentage points.

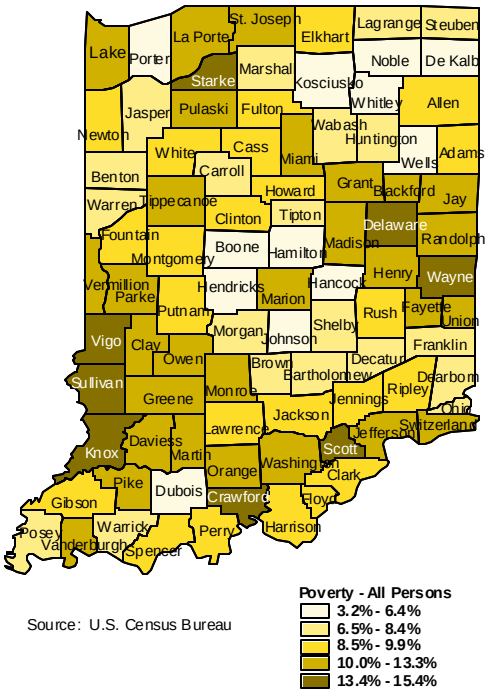
At the county level, only five counties surpassed the national average of 20.3% in 1990. When 2000 educational attainment data is made available, it is anticipated that about the same number of counties will have surpassed the national average. This lower level of attainment of college degrees will have significant implications for the economic development strategy that is feasible in the State of Indiana.

Poverty

The number of people and children living in poverty are important indicators of economic health. The average poverty rate in Indiana was 9.9% in 1997[7], compared to 13.3% for the nation. As illustrated in the map to the right, eight counties had poverty rates above the national average. These counties were located both within and without the different MSAs. A comparison of population growth rates with poverty rates indicates that half of these counties (Delaware, Knox, Wayne, and Vigo) actually lost population between 1990 and 2000.

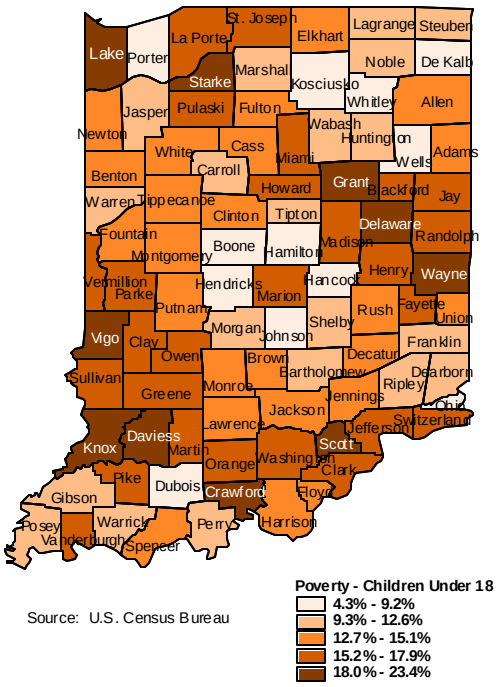
Of the counties with the lowest poverty rates, most were counties located within an MSA surrounding the county containing the major city anchoring the MSA, including Marion, Allen, and Lake counties. The differential in poverty rates within the MSAs and the counties surrounding them points to suburbanization and the strength of the economy within each MSA.

County Poverty Rate, All Persons, Indiana, 1997



Source: U.S. Census Bureau

County Poverty Rate, Children Under 18, Indiana, 1997



Source: U.S. Census Bureau

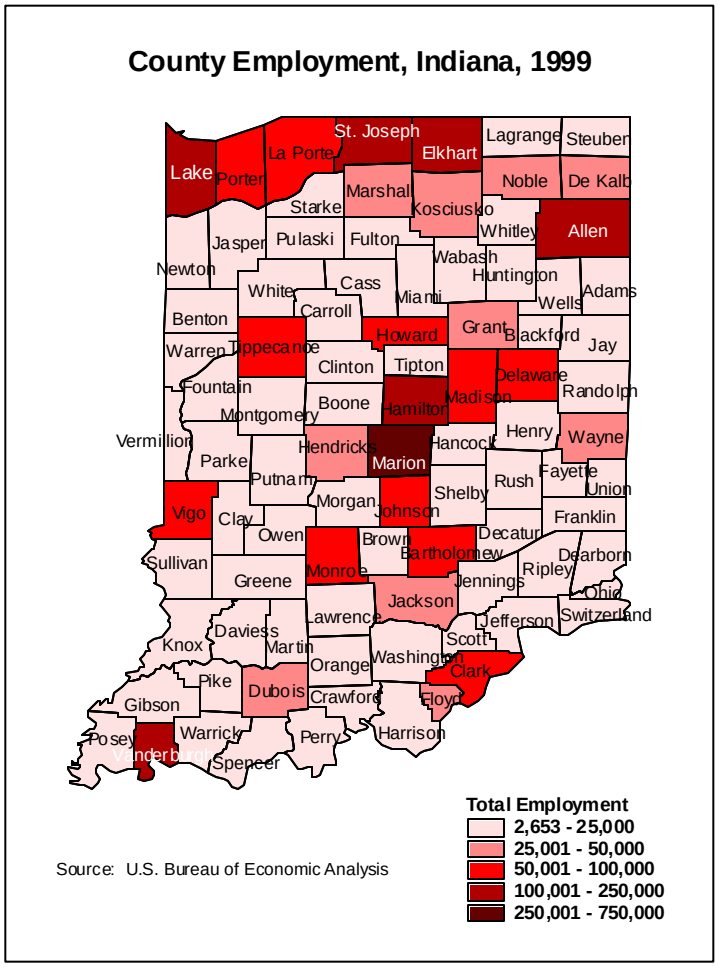
The map to the left looks at the percentage of children under 18 in poverty. The poverty rates for children in 1997 were higher than the rates for the total population. Not surprisingly, the counties with the lowest poverty rates for all persons were the same as those with the lowest rates for children, and vice versa. Crawford County had the highest poverty rate for both all persons and children under 18, while Hamilton County had the lowest rate for both.

[7] The latest county level poverty data available is for 1997. The single year rates for Indiana and the nation are different than the three-year average rates presented earlier in this document.

Employment

In 1999, employment in Indiana counties mirrored that of population concentration. As illustrated in the map to the right, employment was concentrated within the MSAs, specifically, within the counties in each MSA where the larger cities were located.

Marion County, containing the city of Indianapolis, had the largest employment base with just over 19% of total employment, and employed a larger percentage than it had in population (14%). Four of Indiana's largest employers are located in Marion County. Other counties with the largest employers in the State are also in the top tiers of employment. The majority of the counties (70%) had employment under 25,000 each.

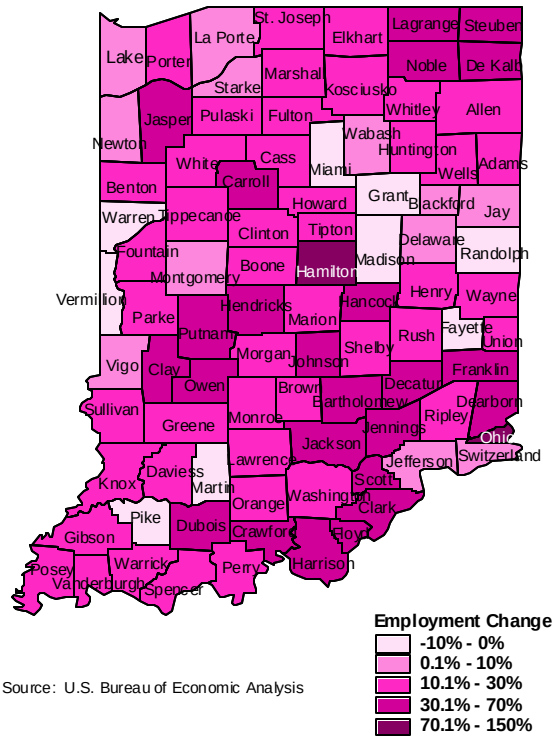


Employment Growth

Employment growth between 1990 and 1999 varied across Indiana, as seen in the map on the following page. This map, in conjunction with the population change map, indicates that people and jobs are moving to the same areas. Several of the counties with strong employment growth between 1990 and 1999 also experienced strong population growth during this time period. For example, Hamilton County had both the highest rates of population and employment growth. The interesting anomaly to this trend is Ohio County, which experienced the second highest employment growth rate, yet had fewer than 25,000 residents and had a population growth rate of less than 10%.

Of the nine counties that experienced a decrease in employment during this period, five of those counties also experienced a loss of population in the 1990s (Fayette, Grant, Martin, Miami, and Vermillion counties). On the positive side, employment growth appeared to be pretty evenly spread out across the State of Indiana, although the strongest areas of growth are located in the southeastern and northeastern areas of the State.

County Employment Change, Indiana, 1990-1999



Source: U.S. Bureau of Economic Analysis

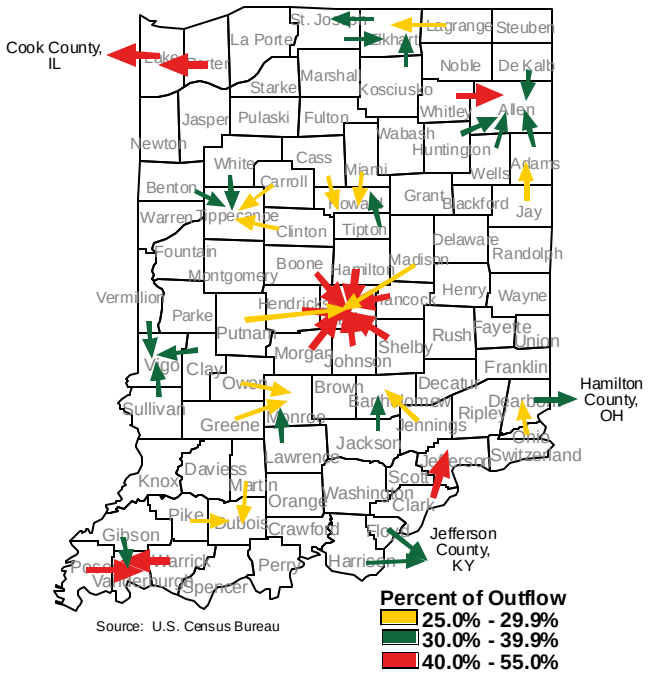
Commuting Patterns

Although the most recent commuting data available at the county level is from the 1990 Census, the information very clearly highlights the economic centers within the State. As illustrated in the map below, Marion County with Indianapolis is obviously a center for employment in the State, where between 40% and 55% of the residents from the adjacent counties commute into Marion County to work. The draw of Marion County even extends beyond the adjacent counties to the counties beyond. Other clear employment centers that emerge include Allen, Elkhart, Howard, Lake, Tippecanoe, Vanderburgh, and Vigo counties.

The linkages that counties in Indiana have with metropolitan areas outside the State are highlighted by the strong outflows into those areas. Between 40% and 55% of the residents in Lake County commute to Cook County and the Chicago area to work on a daily basis. On a smaller scale, 30% to 40% of the residents in Floyd and Hamilton counties and Dearborn County commute to Jefferson County and the Louisville area and Hamilton County and the Cincinnati area to work, respectively.

Combining the information in this map with employment and migration information demonstrates that people are moving out of the core areas into the neighboring counties, but are still returning to the core areas to work.

Largest Flows of County Residents Commuting Elsewhere to Work, Indiana, 1990



Source: U.S. Census Bureau

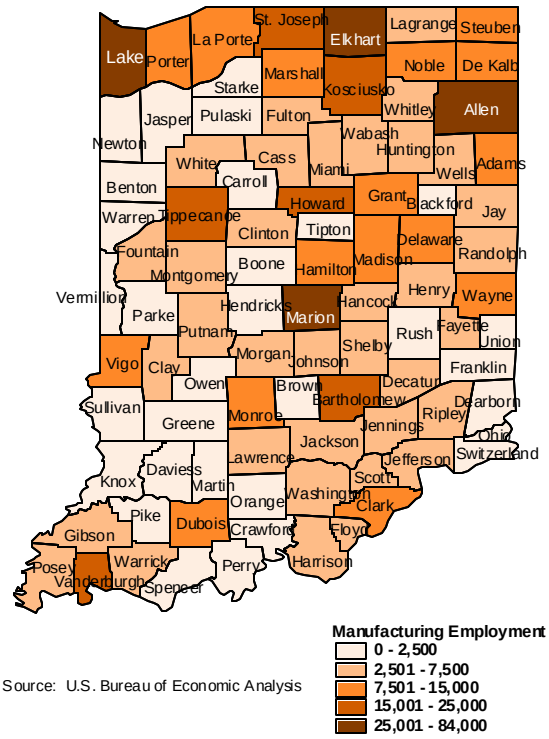
Manufacturing Employment

Manufacturing, the second largest employment sector in Indiana, was concentrated in four counties, all of which are also MSA centers as seen the map to the right. Marion County had the most Manufacturing employment with almost 84,000 jobs. Overall, there was more Manufacturing employment located in the eastern half of the state.

Overlaying total employment with Manufacturing employment indicates that counties with strong Manufacturing employment also tended to have strong employment bases. The majority of counties (66) had fewer than 7,500 Manufacturing jobs, 31 of which had less than 2,500 Manufacturing jobs.

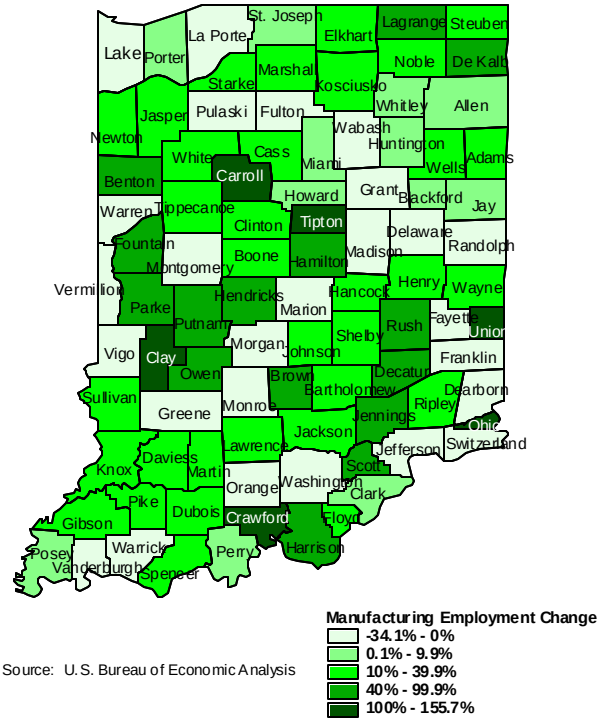
The map below demonstrates the change in Manufacturing employment between 1990 and 1999. While there were five counties with over a 100% increase in Manufacturing employment, this rate of growth is misleading since these counties also had very small Manufacturing employment bases in 1999. Twenty-seven counties actually lost Manufacturing employment, including those with the largest numbers of Manufacturing employment (Lake, Marion, and Vanderburgh counties).

County Manufacturing Employment, Indiana, 1999



Source: U.S. Bureau of Economic Analysis

County Manufacturing Employment Change, Indiana, 1990-1999



Source: U.S. Bureau of Economic Analysis

Note: Manufacturing employment in Ohio and Vermillion counties were estimated because the data was not disclosed due to confidentiality issues.

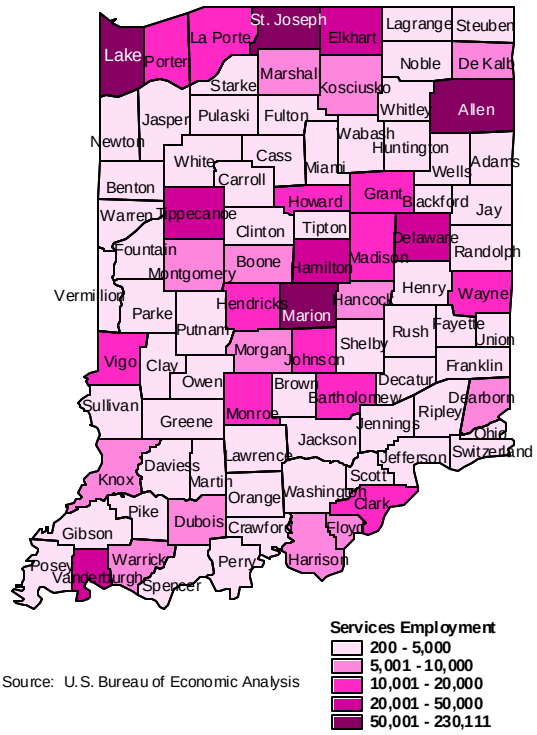
Services Employment

Similar to Manufacturing employment, Services employment was also concentrated in the core MSA counties as seen in the map to the right. This follows a pattern seen in many other areas of Services companies locating near their customers in the population centers. The majority of counties (58) had fewer than 5,000 Services sector employees.

The map below illustrates the change in Services employment between 1990 and 1999. The counties experiencing the highest rate of Services employment growth were split between counties with larger and smaller Services employment bases. For example, Decatur County, which had the highest rate of growth (137.2%), had a Services employment base of less than 5,000 employees. Surprisingly, three counties actually experienced a net loss of Services employment (Crawford, Newton, and Ohio counties). Ohio County is actually an interesting case in that it lost Services employment but had one of the highest growth rates in the Manufacturing sector during the same time period.

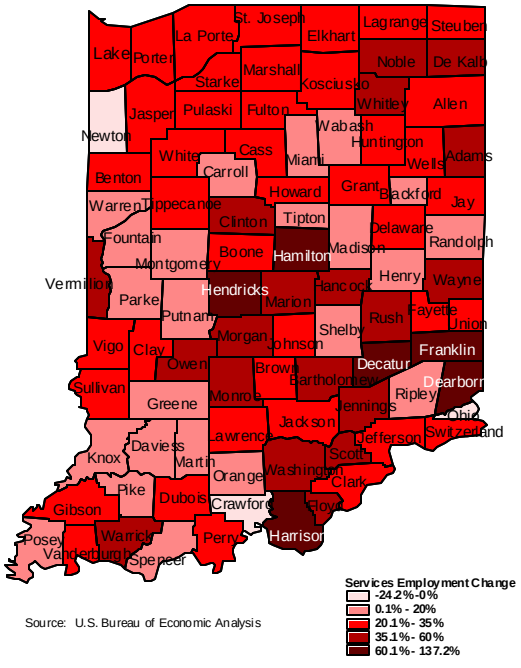
Overall, there was strong growth in the Services sector across the State, with the strongest growth occurring in central, southeastern, and northeastern Indiana.

County Services Employment, Indiana, 1999



Source: U.S. Bureau of Economic Analysis

County Services Employment Change, Indiana, 1990-1999



Source: U.S. Bureau of Economic Analysis

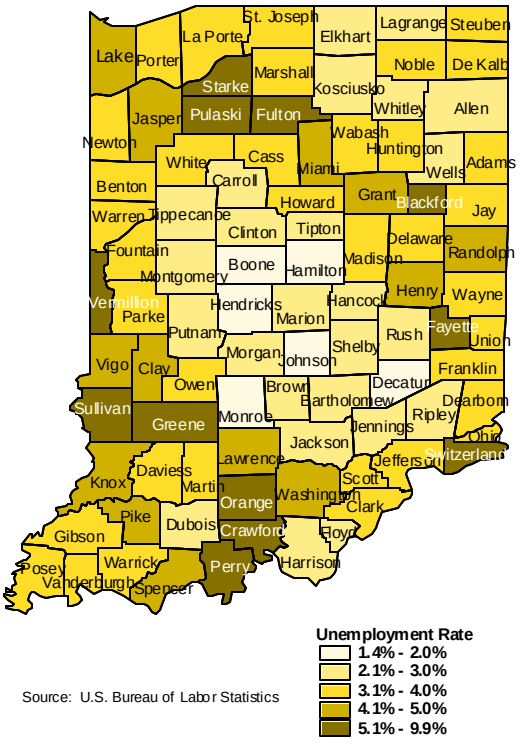
Note: The Services sector employment for Ohio and Crawford counties were estimated because the data was not disclosed due to confidentiality issues.

Unemployment

Unemployment continues to be a problem in several counties in Indiana as seen in the map to the right. Despite having an unemployment rate below the national average, the 2000 unemployment rate in some Indiana counties was severe. Of the 12 counties with unemployment rates over 5%, all had total employment under 15,000. Only one county, Vermillion, was located in an MSA, indicating that the major unemployment issues tend to be located in rural areas of the State.

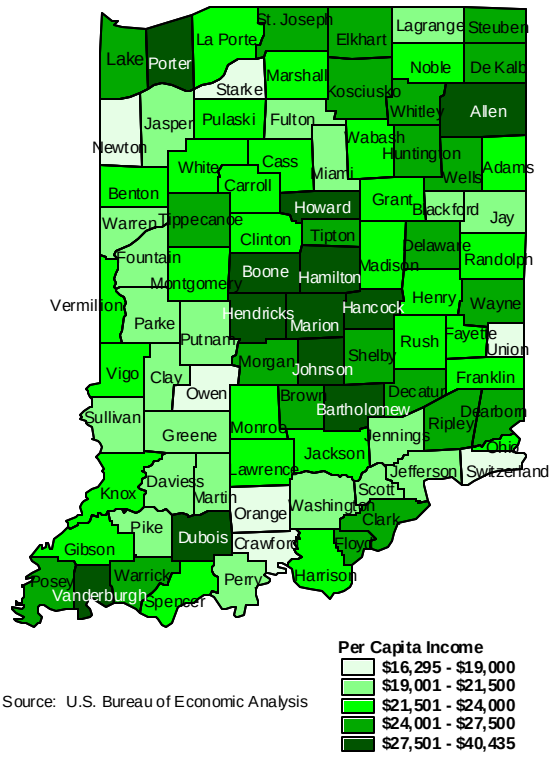
The lowest unemployment rates were found in the central part of the State. Of the counties with the lowest unemployment rate, four had some of the highest rates of employment growth between 1990 and 1999.

County Unemployment Rate, Indiana, 2000



Source: U.S. Bureau of Labor Statistics

County Per Capita Income, Indiana, 1999



Source: U.S. Bureau of Economic Analysis

Income

Per capita income (PCI) is possibly the single most important indicator of economic health. Of the 12 counties with the highest PCIs, all but two were located in an MSA as seen in the map to the left. Additionally, most of the counties with the highest PCIs were located central Indiana around or within the Indianapolis MSA. Hamilton County, situated adjacent to Marion County had the highest PCI at $40,435.

The counties with the lowest PCIs were all located in non-MSA areas, and also had some of the smallest total employment numbers. Starke and Switzerland counties had the lowest PCIs at $16,793 and $16,295 respectively.

Key County Profiles Findings

- There are a total of 13 MSAs in Indiana, which range in size from single county MSAs to a nine-county MSA. Two of these MSAs are multi-state, indicating the presence of strong economic and social ties across state lines upon which future economic development efforts can capitalize.

- The population within Indiana is concentrated in the various MSAs across the State. The Indianapolis, Gary, and Fort Wayne MSAs combined accounted for 45.1% of the total population in Indiana. While the majority of the counties have fewer than 50,000 residents, the population in these rural areas accounted for less than 30% of the total population within the State, indicating that most of the population resides within an urban area.

- The pattern of population growth indicates that suburbanization is occurring across the State as people are moving from the urban centers into the surrounding counties. A review of the migration patterns supports this observation as the urban areas accounted for a significant portion of the in-migration into the surrounding areas.

- Racially, the highest concentrations of non-Caucasians are found in the urban centers, indicating that there is very little racial diversity throughout most of the State.

- Educational attainment rates vary significantly across the State with the lowest educational attainment levels found in non-MSA counties. Conversely, the highest educational attainment levels were found in within the various MSAs. This indicates that the emphasis and value placed on education is weaker in the more rural parts of Indiana.

- Pockets of poverty are found throughout the State, in both MSA and non-MSA counties. For the counties located in an MSA, the higher poverty rates may be an indicator of a weak and/or dying economic area which is no longer the economic center it used to be.

- Employment is similarly concentrated within the urban areas as is the population. A review of the commuting patterns illustrates that while people are moving out of the urban centers to live, they return to the urban centers to work. The strongest example of this is Marion County and the City of Indianapolis where between 30% and 40% of residents in the adjacent counties commute to Marion County to work on a daily basis. Overall, there was strong employment growth across the State over the last decade.

- At the sector level, the largest Manufacturing employment bases were located in the urban centers. However, almost 30% of the counties lost employment in this sector over the last decade, including some of the counties with the largest numbers of Manufacturing employment. The strongest Manufacturing employment growth occurred in counties with very small numbers of Manufacturing jobs.

- Services sector employment was concentrated in the population centers within the State of Indiana, and there was strong growth in this sector across the State over the last decade.

- While the overall State unemployment rate was lower than the national average, there are pockets of counties with high unemployment rates across Indiana. For the most part, these counties were not located within an MSA and had very small employment bases.

- Counties with the highest per capita income (PCI) were primarily located in and around the urban areas, while the counties with the lowest PCIs were in rural counties which also tended to have high unemployment rates.

State Comparisons

In addition to benchmarking Indiana against national averages, the State is compared against other Midwest states to strengthen the understanding of the State's economic competitiveness. The Indiana Department of Commerce selected the neighboring states of Illinois, Kentucky, Michigan, Ohio, and Wisconsin, for comparison because the primary competition for new investments and expansion is between and among these states.

However, it is important to point out that none of these states were among the "top performers" during the 1990s. Many states in the Southeast and West outperformed the entire region in per capita income growth, investment, job growth, and population growth. As the economy becomes more global, Indiana needs to recognize that its competition is worldwide, far beyond these five states. While these comparisons have significant value, they cannot tell the entire story. Indiana faces greater competition for its traditional business sectors and for new business opportunities than ever before. It must be ready to compete against the other 49 states in the U.S. and foreign countries.

Demographic Analysis

Businesses considering a new location often look at the characteristics of the current and future workforce from which they will draw new employees and the quality of the social environment for any current employees that may be relocated to the area.

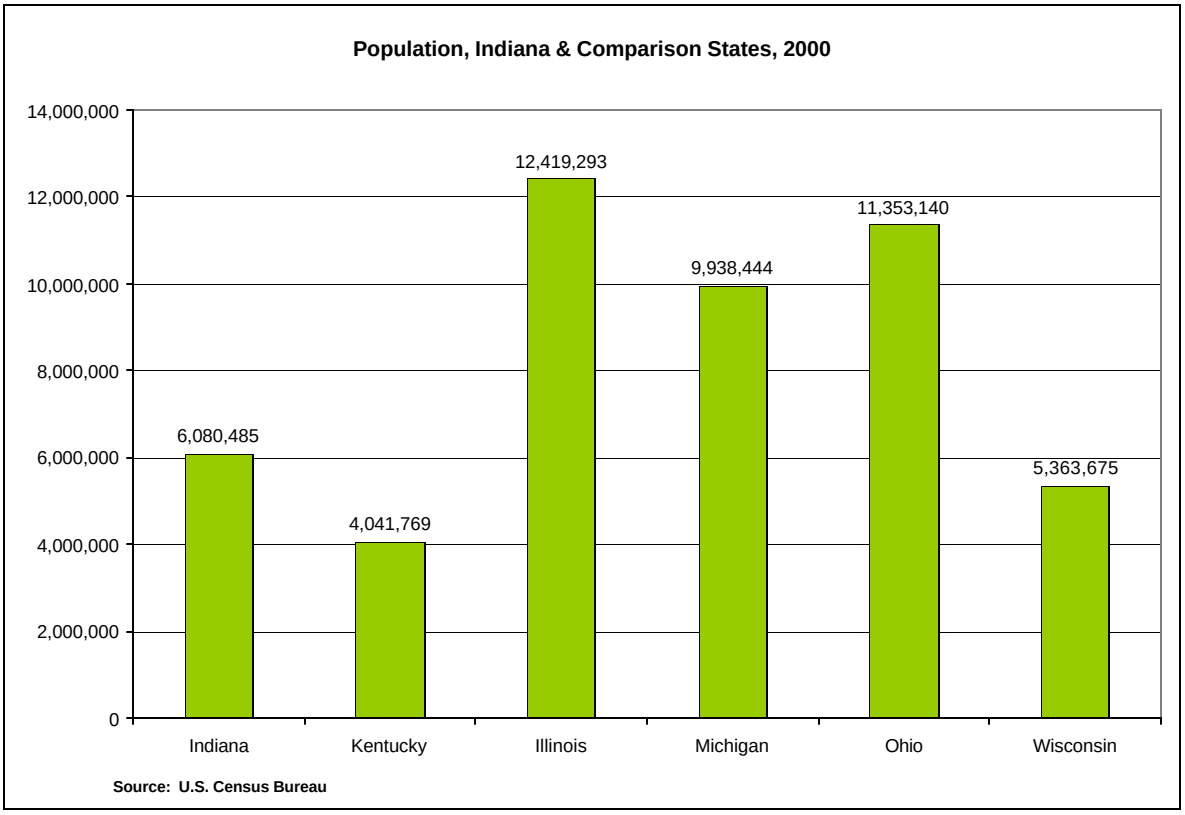
Total Population

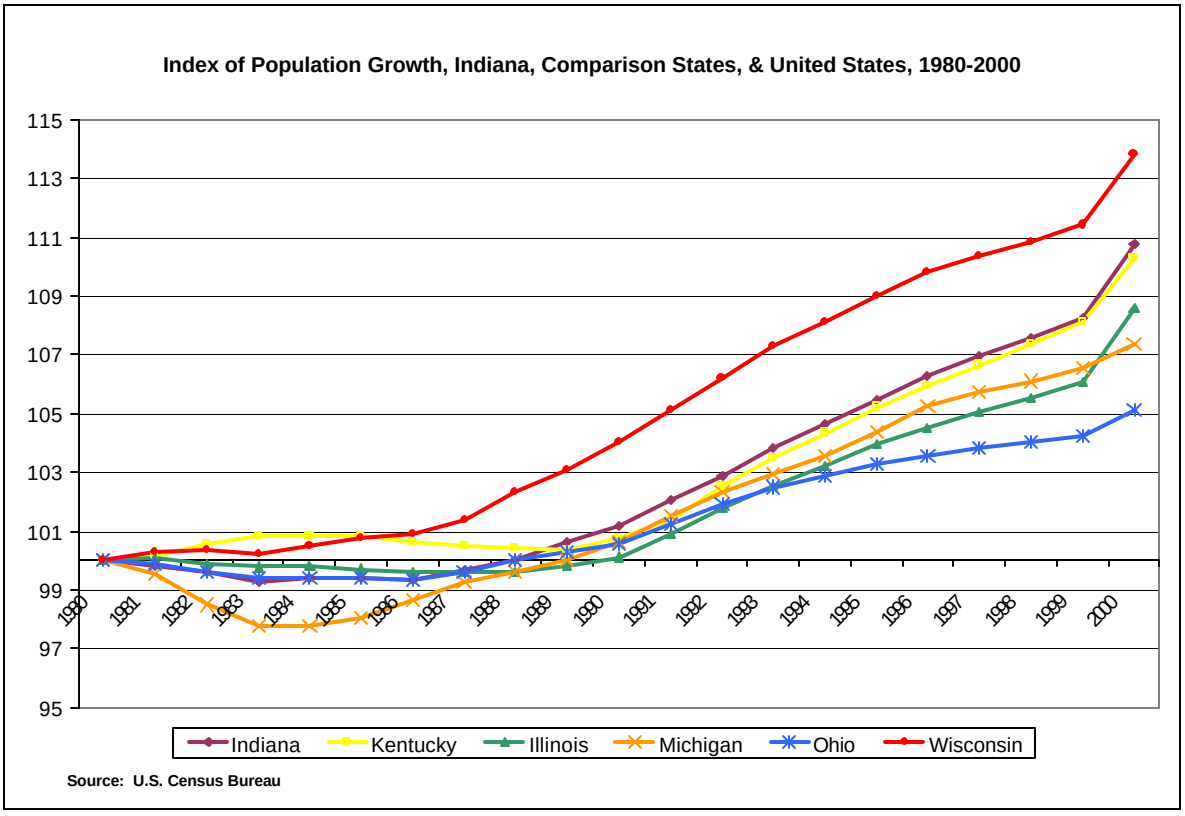
As seen on the first chart on the following page, the comparison states vary in size, of which Indiana falls in the middle. Illinois has the largest population with 12.4 million residents in 2000, which was more than double Indiana's population. Kentucky was the smallest with 4 million residents.

Population Growth Trends

The second chart on the following page looks at the index of population growth for Indiana and the comparison states. The growth rate in each of the states follows the same basic pattern, with most of the growth for the states occurring in the 1990s. Indiana's index of population growth was the second highest of the comparison states, with only Wisconsin having a higher rate of growth. Interestingly, the three smallest states in terms of total population – Indiana, Kentucky, and Wisconsin – experienced the fastest growth over the 20 year time period.

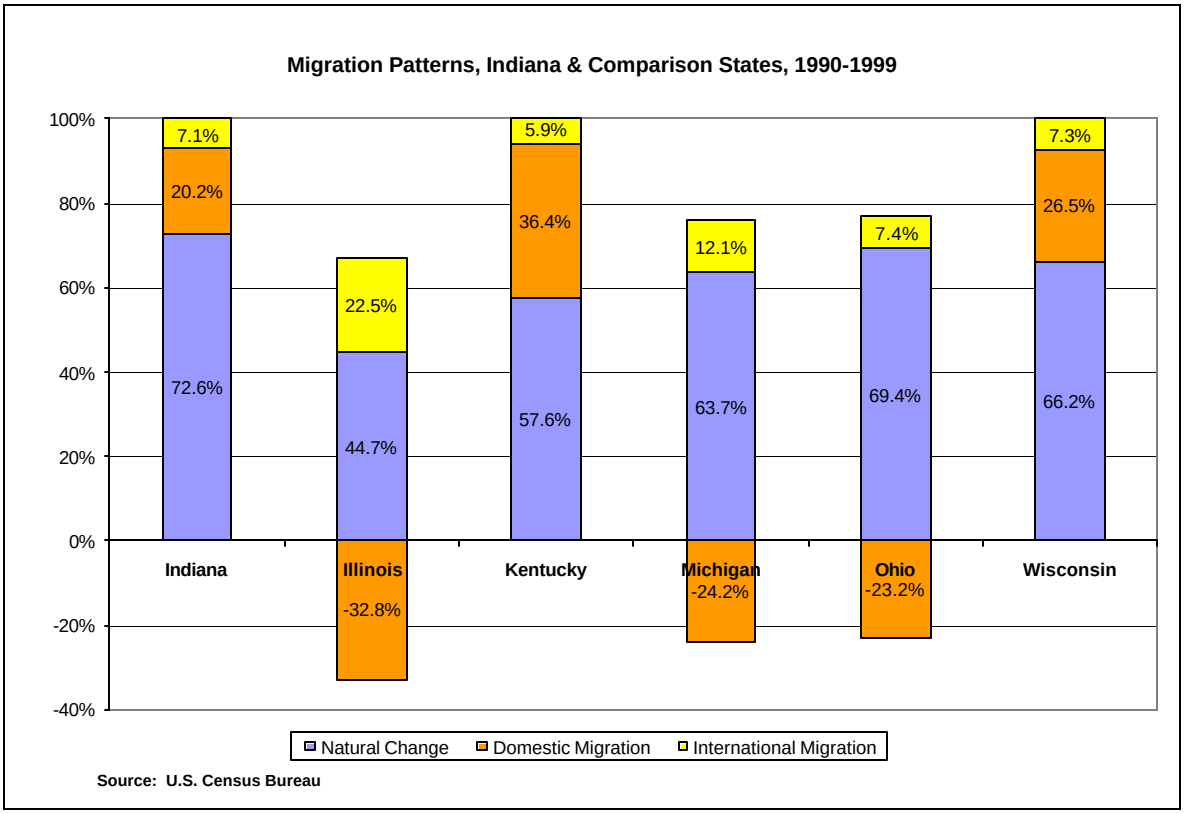
The sharp increases in population growth for several of the states between 1999 and 2000 is most likely a function of population underestimates by the U.S. Census Bureau between Census taking years.


Population, Indiana & Comparison States, 2000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
6,080,485
4,041,769
12,419,293
9,938,444
11,353,140
5,363,675
Indiana
Kentucky
Illinois
Michigan
Ohio
Wisconsin
Source: U.S. Census Bureau


Index of Population Growth, Indiana, Comparison States, & United States, 1980-2000
115
113
111
109
107
105
103
101
99
97
95
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
Indiana
Kentucky
Illinois
Michigan
Ohio
Wisconsin
Source: U.S. Census Bureau

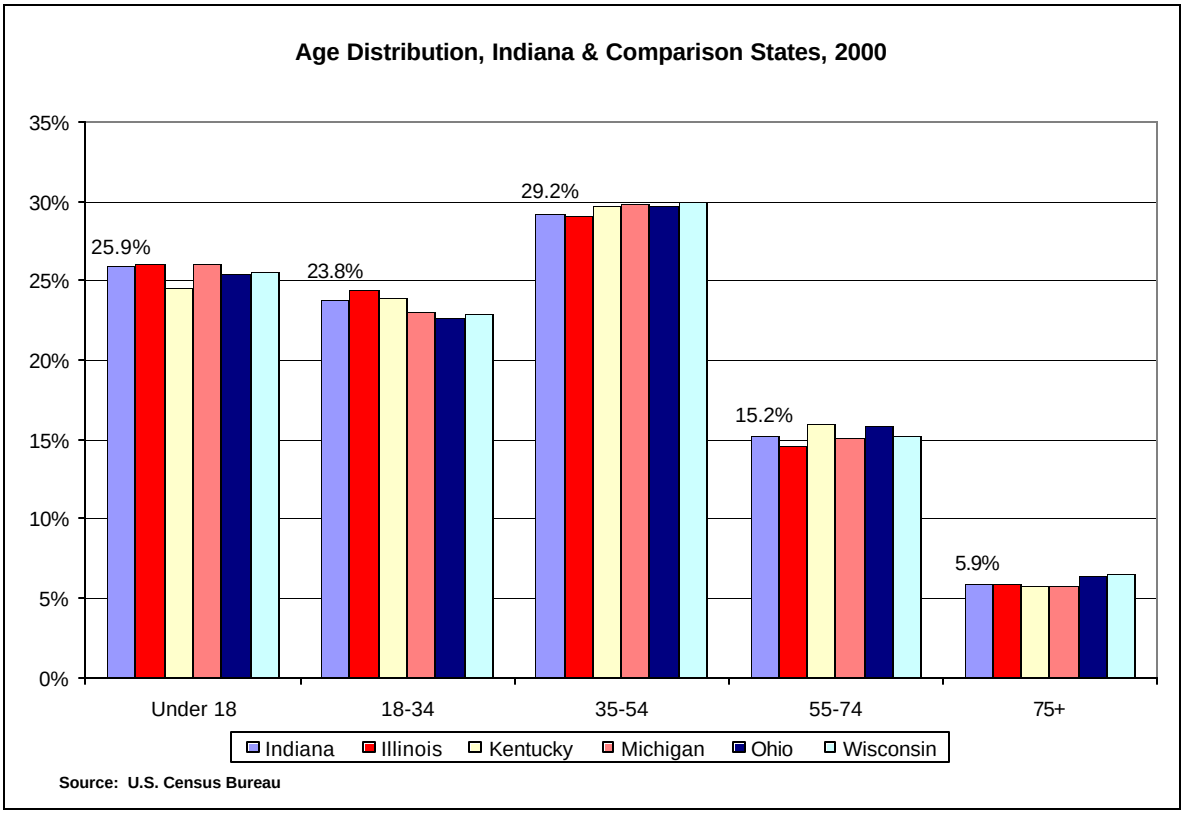
Components of Population Change

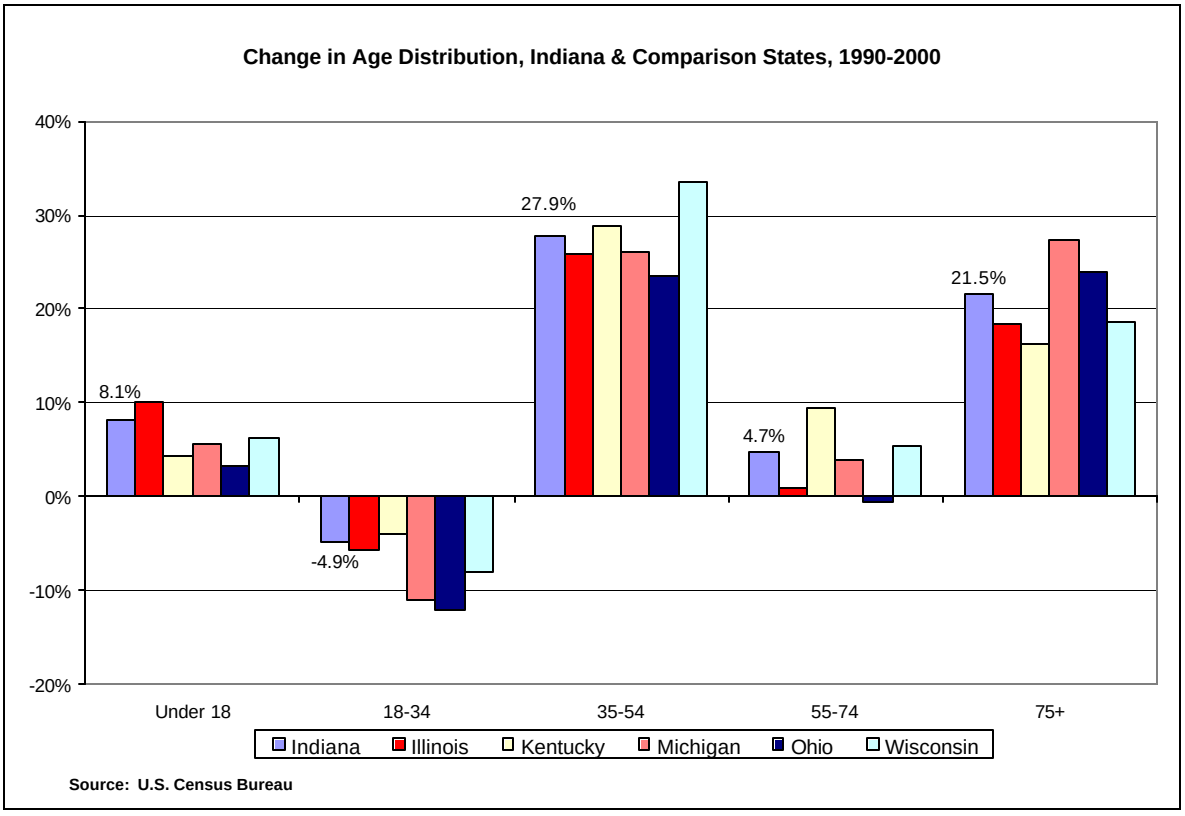
Sources of population growth can provide insight into an area's present and future workforce and an indication of the economic health of a state. As illustrated in the chart below, three states actually experienced a negative net domestic migration rate between 1990 and 1999. Of the states with a positive net domestic migration, Indiana had the smallest rate (20.2%) of these states. Indiana also had the largest percentage of its population growth attributable to natural change of the comparison states. The net international migration rate in Indiana was comparable to Kentucky, Ohio, and Wisconsin. Illinois had the largest net lost of individuals through domestic migration, but had the largest net international migration rate.



Age Distribution

The age distribution of population was similar across all of the states in 2000 as seen in the first chart on the following page. The second chart on the following page illustrates that the changes within the age distributions between 1990 and 2000 were different across the comparison states, although they all followed the same general trend in growth and loss within the different age groups. With the exception of the under 18 age group where Indiana had the second highest growth rate, Indiana's percentage change within the other age groups fell in the middle of the comparison states.


Age Distribution, Indiana & Comparison States, 2000
35%
30%
25%
20%
15%
10%
5%
0%
25.9%
23.8%
29.2%
15.2%
5.9%
Under 18
18-34
35-54
55-74
75+
Indiana
Illinois
Kentucky
Michigan
Ohio
Wisconsin
Source: U.S. Census Bureau


Change in Age Distribution, Indiana & Comparison States, 1990-2000
40%
30%
20%
10%
0%
-10%
-20%
8.1%
-4.9%
27.9%
4.7%
21.5%
Under 18
18-34
35-54
55-74
75+
Indiana
Illinois
Kentucky
Michigan
Ohio
Wisconsin
Source: U.S. Census Bureau

Racial and Ethnic Composition

The Midwest as a whole tends to not be very racially diverse as illustrated in the table below. The racial composition of Indiana was similar to that of Kentucky, Ohio, and Wisconsin. Only Illinois was very diverse racially, and more so than even the nation.

TABLE 6. RACIAL COMPOSITION, INDIANA AND COMPARISON STATES, 2000

	Caucasian	African-American	Other Races
Indiana	87.5%	8.4%	4.1%
Illinois	73.5%	15.1%	11.4%
Kentucky	90.1%	7.3%	2.6%
Michigan	80.2%	14.2%	5.6%
Ohio	85.0%	11.5%	3.5%
Wisconsin	88.9%	5.7%	5.4%

Source: U.S. Census Bureau

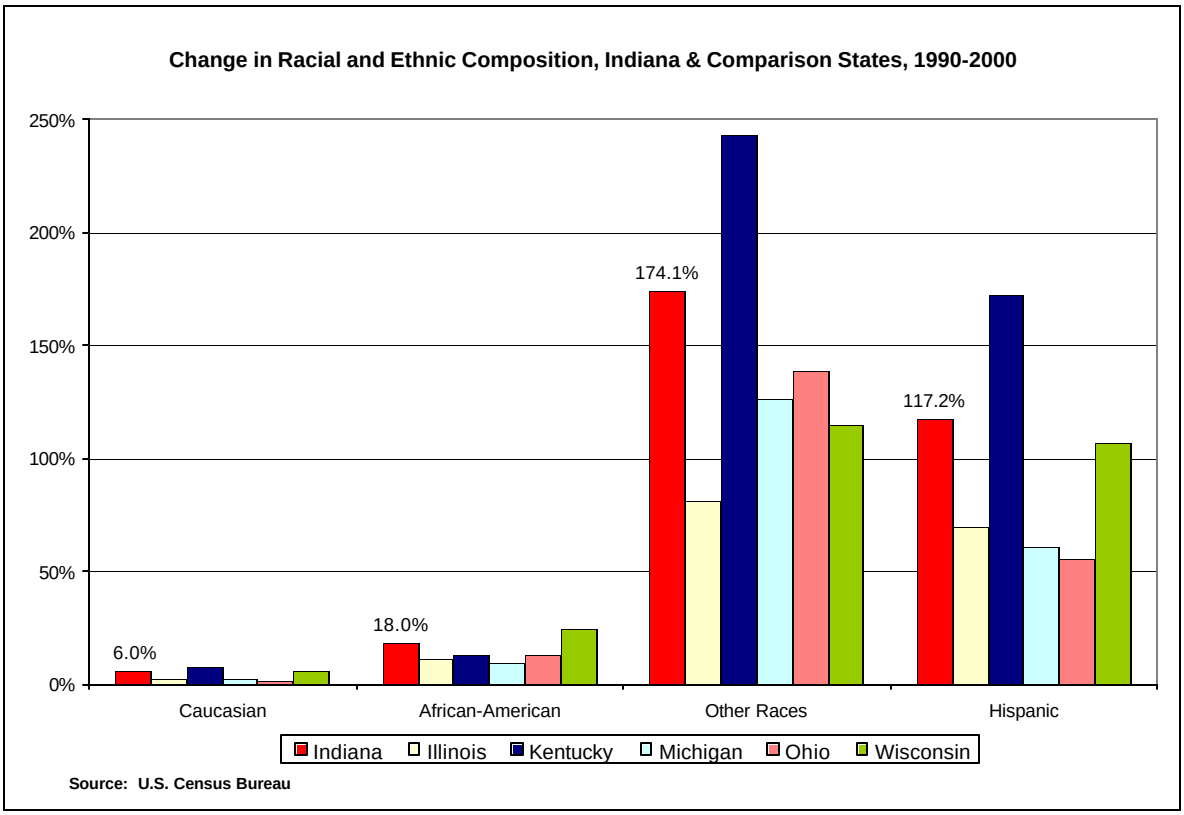
People of Hispanic ethnicity are also growing and diversifying communities throughout the United States, and accounted for approximately 3.5% of the total population in Indiana, Michigan, and Wisconsin in 2000 as seen in the table below. Again, Illinois was the most diverse, with the largest Hispanic community of the comparison states.

TABLE 7. HISPANIC ETHNICITY, INDIANA AND COMPARISON STATES, 2000

	Hispanics
Indiana	3.5%
Illinois	12.3%
Kentucky	1.5%
Michigan	3.3%
Ohio	1.9%
Wisconsin	3.6%

Source: U.S. Census Bureau

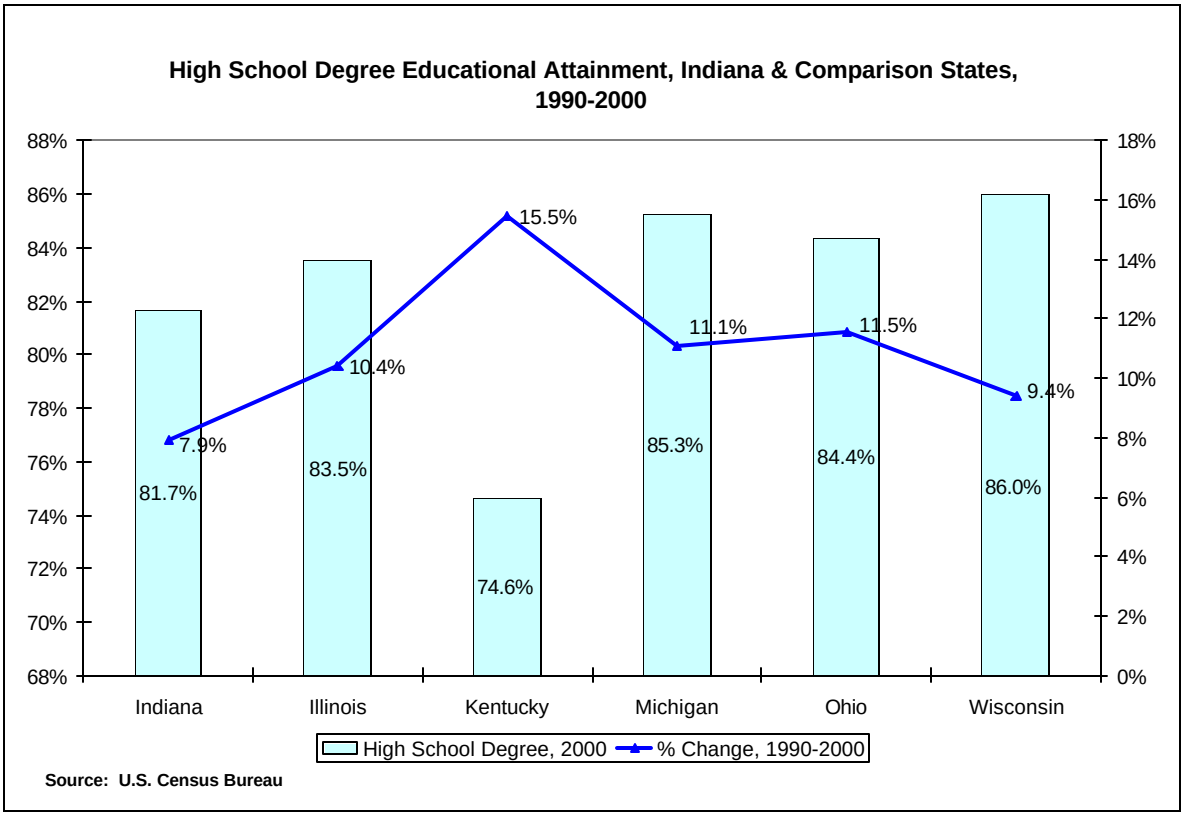
Between 1990 and 2000, all of the states became more diverse, both in terms of race and ethnicity, as illustrated in the chart on the following page. Indiana experienced the second highest rate of growth in Other Races and Hispanics, but all of the comparison states also experienced the high rates of growth in these racial and ethnic categories. On average, the smaller states have seen larger growth in their minority populations.

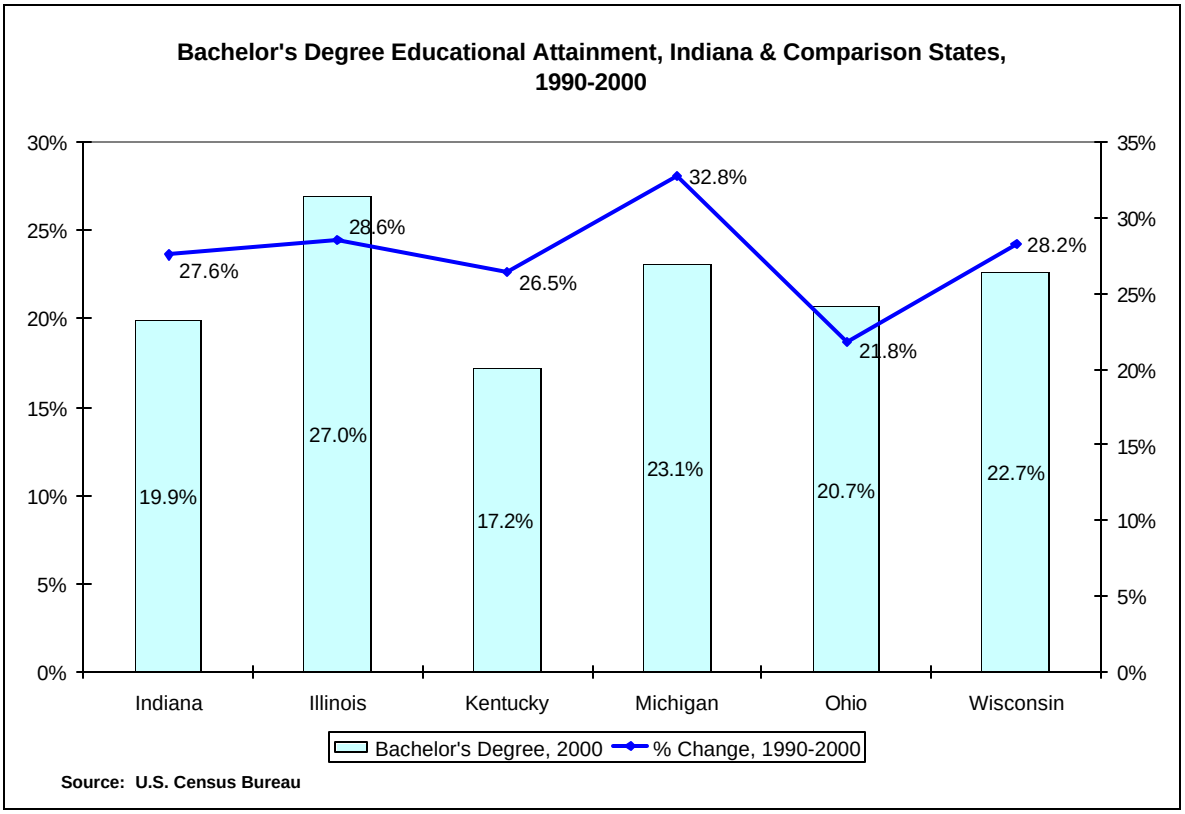


Educational Attainment

Education is a key factor in a state's ability to provide a well-trained and well-prepared workforce for current and prospective businesses. As illustrated in the two charts on the following page, Indiana clearly lags behind all of the comparison states, except Kentucky, in the percentages of the adult population 25 and older with a high school diploma and a college degree in 2000.

All of the states showed improvement in educational attainment levels between 1990 and 2000, as also illustrated in the charts on the following page, but Indiana had the smallest increase in the percentage of adults with high school diplomas in the 1990s. Indiana's gain in percentage of adults with college degrees was comparable to the percentage increase in the other states.


High School Degree Educational Attainment, Indiana & Comparison States, 1990-2000
88%
86%
84%
82%
80%
78%
76%
74%
72%
70%
68%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
81.7%
83.5%
74.6%
85.3%
84.4%
86.0%
7.9%
10.4%
15.5%
11.1%
11.5%
9.4%
Indiana
Illinois
Kentucky
Michigan
Ohio
Wisconsin
High School Degree, 2000
% Change, 1990-2000
Source: U.S. Census Bureau


Bachelor's Degree Educational Attainment, Indiana & Comparison States, 1990-2000
30%
25%
20%
15%
10%
5%
0%
35%
30%
25%
20%
15%
10%
5%
0%
19.9%
27.0%
17.2%
23.1%
20.7%
22.7%
27.6%
28.6%
26.5%
32.8%
21.8%
28.2%
Indiana
Illinois
Kentucky
Michigan
Ohio
Wisconsin
Bachelor's Degree, 2000
% Change, 1990-2000
Source: U.S. Census Bureau

Looking at attainment of an Associate degree among the 25 and older population, Indiana has one of the lower rates of this level of educational attainment as seen in the table below. It is interesting to note that the trend of a decrease in the percentage of Associate degrees is found in all of the comparison states.

TABLE 8. ASSOCIATE DEGREES, INDIANA AND COMPARISON STATES, 1990 & 2000

	Associate Degree		Associate Degree, Population with a High School Degree but not Bachelor's or Graduate Degree	
	1990	2000	1990	2000
Indiana	5.3%	5.2%	8.8%	8.4%
Illinois	5.8%	5.8%	10.5%	10.1%
Kentucky	4.1%	4.0%	8.0%	7.4%
Michigan	6.7%	6.5%	11.3%	10.6%
Ohio	5.3%	5.1%	9.1%	8.5%
Wisconsin	7.1%	7.0%	11.7%	11.1%

Source: U.S. Census Bureau

Although not a perfect indicator, scores on standardized tests given to college-bound students also can be used to measure how well different states are preparing their students to either enter the workforce or pursue further education. Two nationally recognized tests are the Scholastic Aptitude Test (SAT) and the ACT Assessment.

As demonstrated in the table below, Indiana had the lowest SAT scores for high school seniors of the comparison states. However, comparing SAT scores between states is somewhat misleading, because, in some states, only college bound take the test, while in others, a larger proportion of test takers are not necessarily college bound. For example, in Indiana, 60% of high school seniors took the SAT, while only 11% did in Michigan. However, in Indiana, a smaller percentage of these high school seniors actually went on to college than Michigan. This smaller test taking percentage also explains why Kentucky can have poor graduation rates yet still have high SAT scores.

TABLE 9. SAT AND ACT SCORES, INDIANA AND COMPARISON STATES

	SAT Scores		ACT Scores
	1987-1988	1999- 2000	2001
Indiana	976	999	21.4
Illinois	1080	1154	21.6
Kentucky	1086	1098	20.1
Michigan	1065	1126	21.3
Ohio	1050	1072	21.4
Wisconsin	1100	1181	22.2

Source: College Examination Board and ACT, Inc

All of the states saw an increase in SAT scores between the 1987-1988 and 1999-2000 school years as demonstrated in the table. The increase in Indiana's SAT scores was lower than Illinois, Michigan, and Wisconsin, and about equal to Kentucky.

ACT scores among the states were comparable, with Indiana falling right in the middle. All of the states, with the exception of Kentucky, had ACT scores above the national average of 20.1. There has been very little change in the scores over the last five years. As with the SAT scores, comparing ACT scores between states is somewhat misleading, with a lower percentage of high school seniors taking this test in Indiana than in the comparison states. For example, in 2001, only 20% of Indiana's high school seniors took the ACT, while between 63% to 71% of the high school seniors in the other states took the ACT. For the ACT, Indiana's scores may be comparable to the region because only students who are considering attending a college or university outside the State of Indiana are taking this test.

Poverty

As illustrated in the table below, Indiana had the second lowest poverty rate for all persons and children under 19, with only Wisconsin having a lower poverty rate. Over the last few years, all of the states have experienced reductions in their poverty rates.

TABLE 10. POVERTY RATES, INDIANA AND COMPARISON STATES, 1994-1999

	All Ages		Under 19, At or Below 200% of Poverty	
	1994-1996	1997-1999	1994-1996	1997-1999
Indiana	10.3%	8.3%	38.2%	30.3%
Illinois	12.3%	10.4%	39.2%	34.3%
Kentucky	16.7%	13.8%	48.4%	40.0%
Michigan	12.5%	10.3%	37.5%	33.8%
Ohio	12.8%	11.4%	38.7%	37.2%
Wisconsin	8.8%	8.5%	33.4%	29.7%

Source: U.S. Census Bureau

Indiana and Michigan had fairly similar federal nutrition program participation rates, which were more often than not, lower than those of Kentucky and Illinois, as seen in the table below. Wisconsin had the lowest participation rate in these programs. These statistics reinforce the poverty statistics presented in the table above.

TABLE 11. FEDERAL NUTRITION PROGRAM PARTICIPATION, INDIANA AND COMPARISON STATES

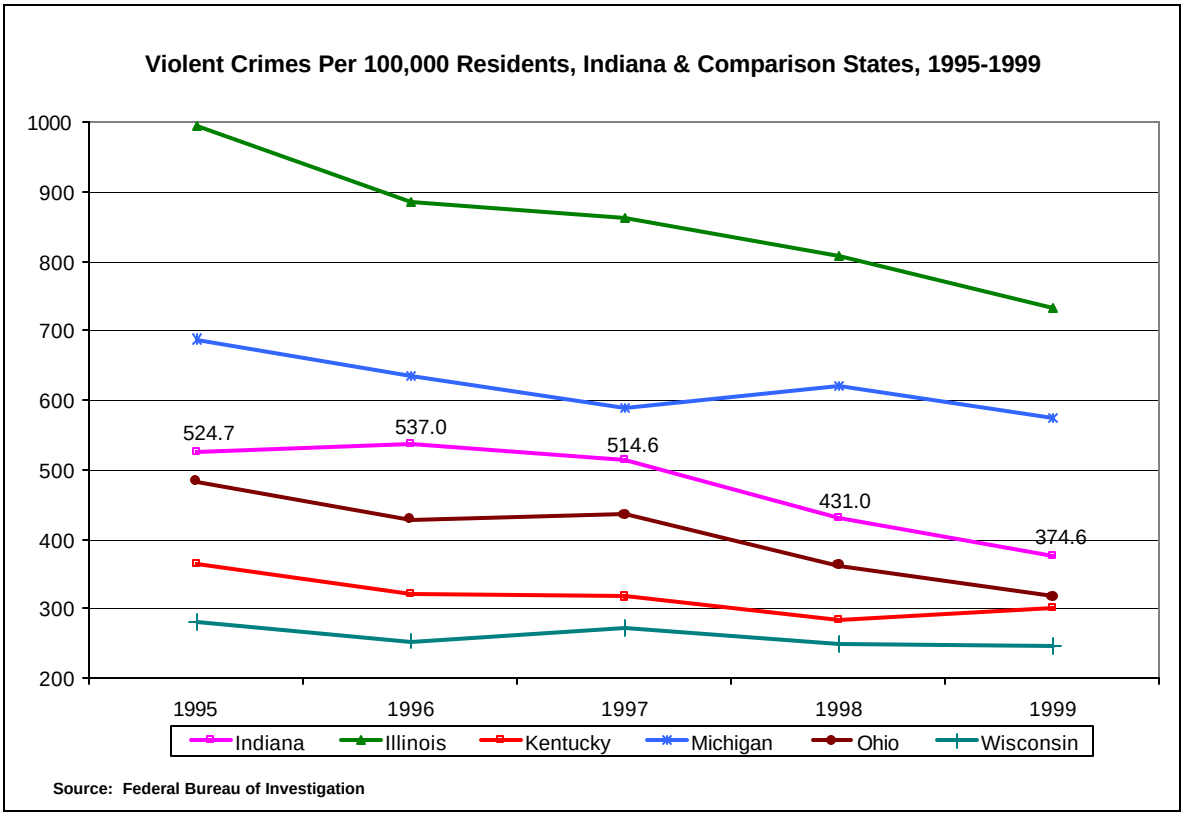
	Indiana	Illinois	Kentucky	Michigan	Ohio	Wisconsin
School Breakfast Program (1999-2000)	5.8%	5.7%	15.4%	5.8%	6.0%	3.3%
National School Lunch Program (1999-2000)	15.4%	20.7%	28.0%	15.7%	16.0%	14.4%
Food Stamp Program (FY 1999)	5.0%	6.8%	10.0%	6.9%	5.7%	3.5%
Change 10/99 to 10/00	8%	0%	0%	4%	2%	13%
Change 10/95 to 10/00	-21%	-29%	-21%	-31%	-43%	-33%
WIC (FY1999)	2.2%	2.0%	3.1%	2.2%	2.2%	2.0%

Source: Food Research and Action Center, Washington D.C.

As with the nation averages, Indiana's performance on these indicators is mixed, with the State performing very well on some measures and average on others in comparison to the other states. One indication that the economic well-being of Indiana residents is decreasing is the fact that the State had one of the smallest decreases in participation in the food stamp program over the past five years. While Indiana did have one of the lowest rates of participation in this program, the smaller decrease and the actual increase in participation during the most recent reported fiscal year points to a gradual worsening of the economic health of Indiana residents.

Violent Crime

Indiana's violent crime rate fell in the middle of the comparison states between 1995 and 1999 as illustrated in the chart below. All of the states saw a reduction in their violent crime rates during this time period.



Kids Count Indicators

The *Kids Count Data Book* annually assesses the overall welfare of children and focuses on 10 indicators in three areas: health, adequacy of income, and educational attainment. The *Kids Count* state rankings provide a comprehensive assessment of each state's situation with regard to children and a way to make comparisons between states over time.

In 2001 (using 1998 data), Indiana had the second highest overall ranking at 15th, below only Wisconsin. The table on the following page shows the highest and lowest ranking indicators for each of the states. The 1990s showed all of the states, except Ohio, improving their overall rankings, and Indiana experienced the greatest improvement, jumping 11 places during that time period.

TABLE 12. *KIDS COUNT* INDICATORS, INDIANA AND COMPARISON STATES, 2001

	Overall Ranking	Highest Indicator	Lowest Indicator
Indiana	15th	High School Drop Out Rate (4th) Single Parent Families (4th)	Low Birth Rate Babies (32nd)
Illinois	32nd	Child Death Rate (15th)	Infant Mortality Rate (38th)
Kentucky	36th	Single Parent Families (15th)	Unemployed Parents (40th)
Michigan	28th	Teens not in School and not Working (13th)	Infant Mortality Rate (36th)
Ohio	25th	Teen Death Rate (8th)	Unemployed Parents (34th) Infant Mortality Rate (34th)
Wisconsin	5th	High School Drop Out Rate (1st)	Mortality Rate (22nd) Child Death Rate (22nd)

Source: *Kids Count Data Book*, Annie E. Casey Foundation

Key Demographic Findings for Indiana and Comparison States

- Indiana had the second highest population growth rate of the comparison states. Of the population growth that occurred during the 1990s, Indiana experienced the greatest percentage of its growth due to natural change in comparison to the other states, and had the smallest positive net domestic migration. Among all of the states, the increase in population between 1990 and 2000 also led to greater racial and ethnic diversification.

- Indiana had the second lowest educational attainment levels of the comparison states for both the percentages of adults 25 and older with a high school diploma and a college degree. In terms of Associate degrees, Indiana had one of the lower percentages of the comparison states. Also, Indiana had the lowest SAT scores of these states in 2000, but a comparable average ACT score in 2001.

- Indiana had one of the lowest poverty rates of the comparison states and the second lowest percentage of participation in federal nutritional programs. However, a review of changes in program participation over time points to a decrease in the economic health of Indiana residents over the past few years.

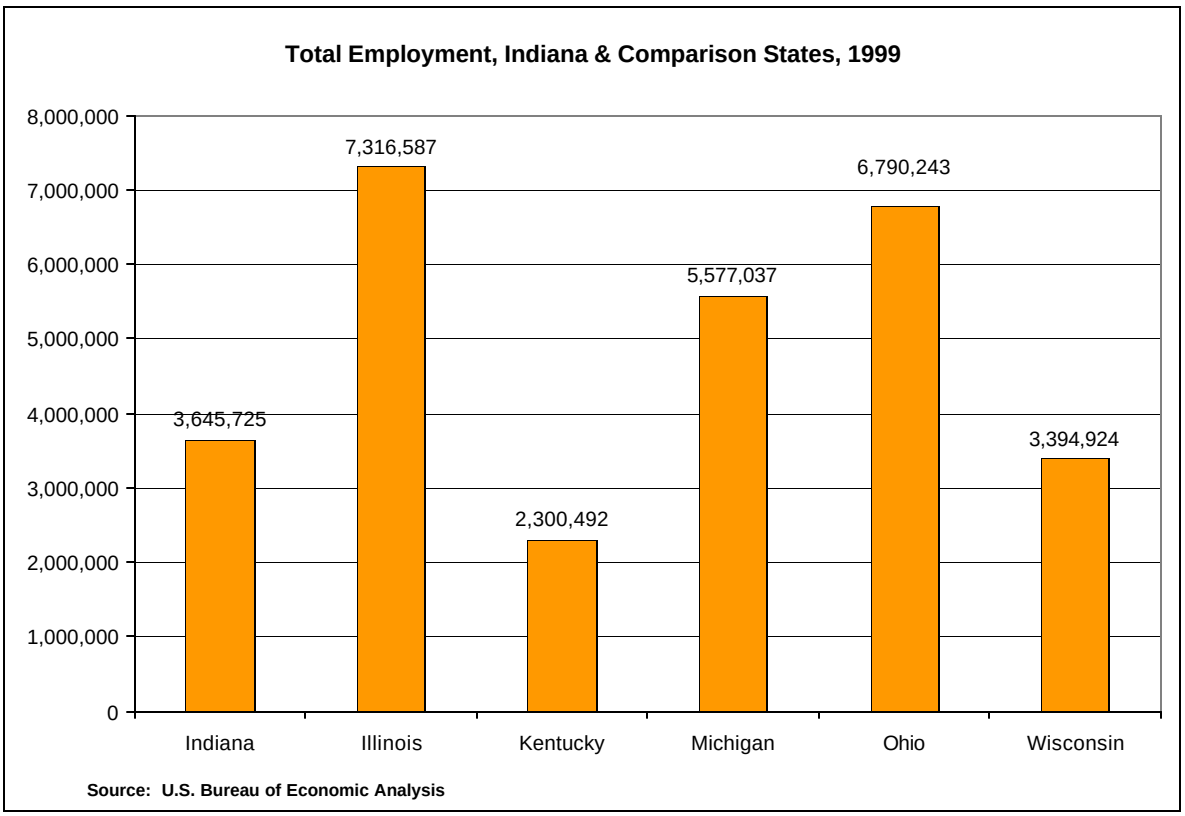
- According to the *2001 Kids Count Data Book*, which assesses the overall welfare of children by state, Indiana ranked 15th, the second highest ranking of the comparison states. Indiana also had the largest improvement in its relative position, jumping 11 spots during in the 1990s.

Economic Performance

A review the economic performance within each of the comparison states provides information as to how well Indiana is doing economically in relation to other Midwest states. Additionally, several indicators of the flexibility of the workforces in each state are analyzed to compare the levels of workforce availability.

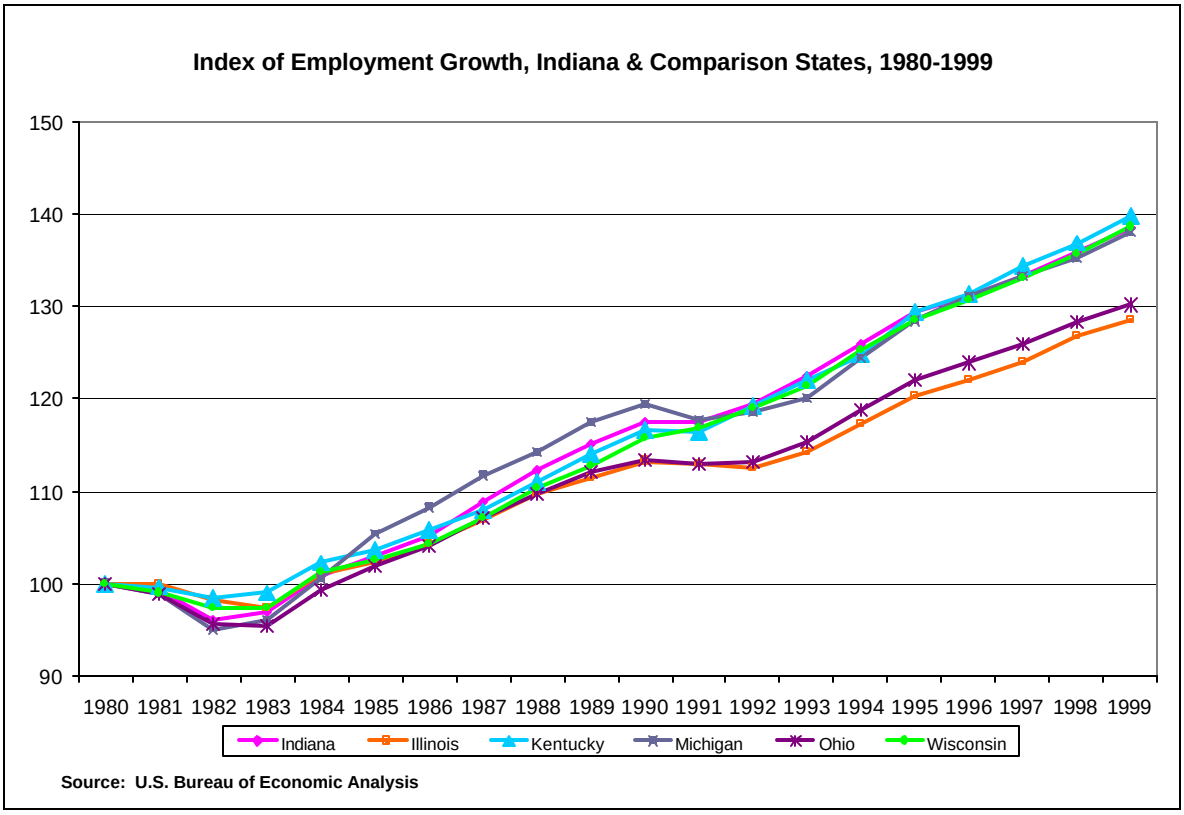
Total Employment

Total employment varies widely among the comparison states, with largest to smallest numbers of total employment following the same pattern as total population. Therefore, Indiana, which had the 4th lowest population total, also had the 4th lowest total employment in 1999 as illustrated in the chart below.



Employment Growth

As illustrated in the chart on the following page, Indiana had the second highest employment growth between 1980 and 1999 of the comparison states, and was within 2% of the growth rates within Kentucky, Michigan, and Wisconsin. The employment growth rate in all of the states followed a similar pattern with negative growth in the early 1980s and a downturn in growth in the early 1990s.



Labor Force and Unemployment

The flexibility of a state's labor force is important because those with a tighter labor market often have some difficulty adding even a moderate number of jobs to the state's economy through expansions or new locations because of the difficulty in finding qualified employees to fill those new jobs. Two measures of workforce flexibility are the unemployment rate, depicting how many people are not working that want to work, and the labor force participation rate (LFPR), measuring how many adults are not in the labor force, some of whom might be encouraged to return to work.

Indiana had the second lowest LFPR of the comparison states in 2000 as seen in the table below. However, Indiana also had the lowest unemployment rates in both 2000 and July 2001.

TABLE 13. LABOR FORCE PARTICIPATION & UNEMPLOYMENT RATES, INDIANA AND COMPARISON STATES

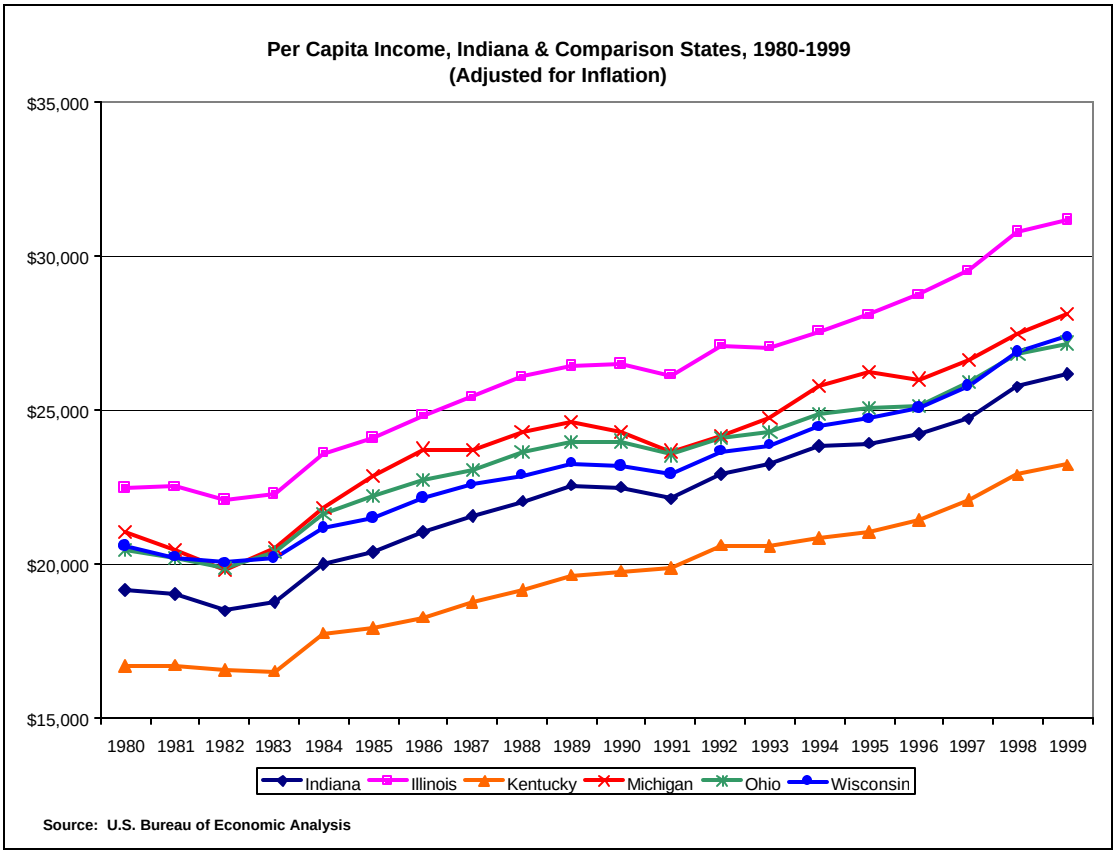
	LFPR, 2000	Unemployment, 2000	Unemployment, July 2001
Indiana	78.2%	3.2%	3.9%
Illinois	79.5%	4.4%	5.3%
Kentucky	73.8%	4.1%	5.2%
Michigan	80.6%	3.6%	4.6%
Ohio	78.6%	4.1%	4.2%
Wisconsin	84.5%	3.5%	4.4%

Source: U.S. Census Bureau and U.S. Bureau of Labor Statistics

It is important to remember that even though Indiana had the second lowest LFPR, this rate was higher than the national average, meaning that all of the comparison states, with the exception of Kentucky, had LFPRs that exceeded the nation. Based upon these statistics, Indiana had one of the tightest labor markets of the comparison states with its LFPR and unemployment rate. The labor market is also very tight in Wisconsin and Michigan, both of which also had high LFPRs and low unemployment rates.

Income

Between 1980 and 1999, Indiana consistently had the second lowest per capita income (PCI) of the comparison states as shown in the chart below. All of the states' PCIs increased over time and followed the same basic growth pattern. This rate of growth in the State's PCI demonstrates two things about Indiana. One, economic prosperity in Indiana has mirrored that of the surrounding states, rising when the others rise, and falling when the others fall. Two, Indiana has not been able to increase the economic well-being of its residents to any measurable extent better than the surrounding states, and has essentially maintained the status quo.



Key Economic Performance Findings for Indiana and Comparison States

- Similar to total population, Indiana had the fourth largest total employment of the comparison states. Indiana had the second highest employment growth rate between 1980 and 1999, with growth rates comparable to Kentucky, Michigan, and Wisconsin.

- Indiana has one of the tightest labor markets of the comparison states, with a strong labor force participation rate (LFPR) and the lowest unemployment rate. Even though Indiana did not have the highest LFPR of the comparison states, it is important to remember that the LFPR in Indiana exceeded that of the nation in 2000. The labor force is also tight in Wisconsin and Michigan.

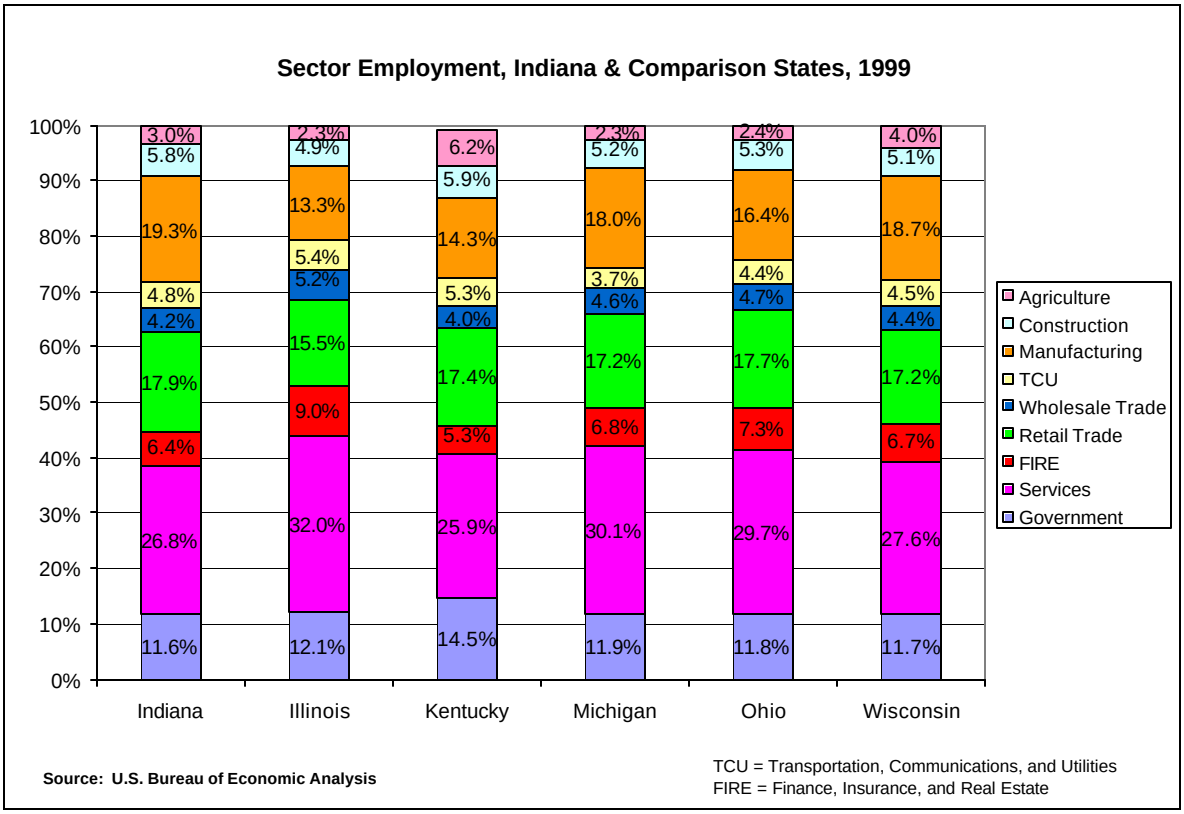
- Indiana has consistently had the second lowest per capita income (PCI) of the comparison states over the last 20 years, with the PCI growing in the same pattern as the other states. This indicates that the economy in Indiana has not outperformed those of the comparison states, and that, in fact, Indiana has not been able to improve the economic health of its residents beyond the average rate.

Economic Structure

A review of the economic structure within the comparison states provides an indication of each states' major economic engines. This information may help to explain why some states are performing better than others, and the level of economic diversification within each. New companies will review the structure of the existing economy to provide some insight into the skill levels of the area's workforce and its typical earnings. Also, a company may use this information to determine whether potential suppliers or customers are already located in the area.

Sector Employment

Some interesting trends emerge when sector employment in Indiana is compared to the other states as illustrated in the chart below. Although the largest sector in Indiana is Services, it accounted for one of the smallest percentage of total employment of all the comparison states. Conversely, Indiana's Manufacturing sector accounted for the greatest percentage of total employment of all the comparison states.

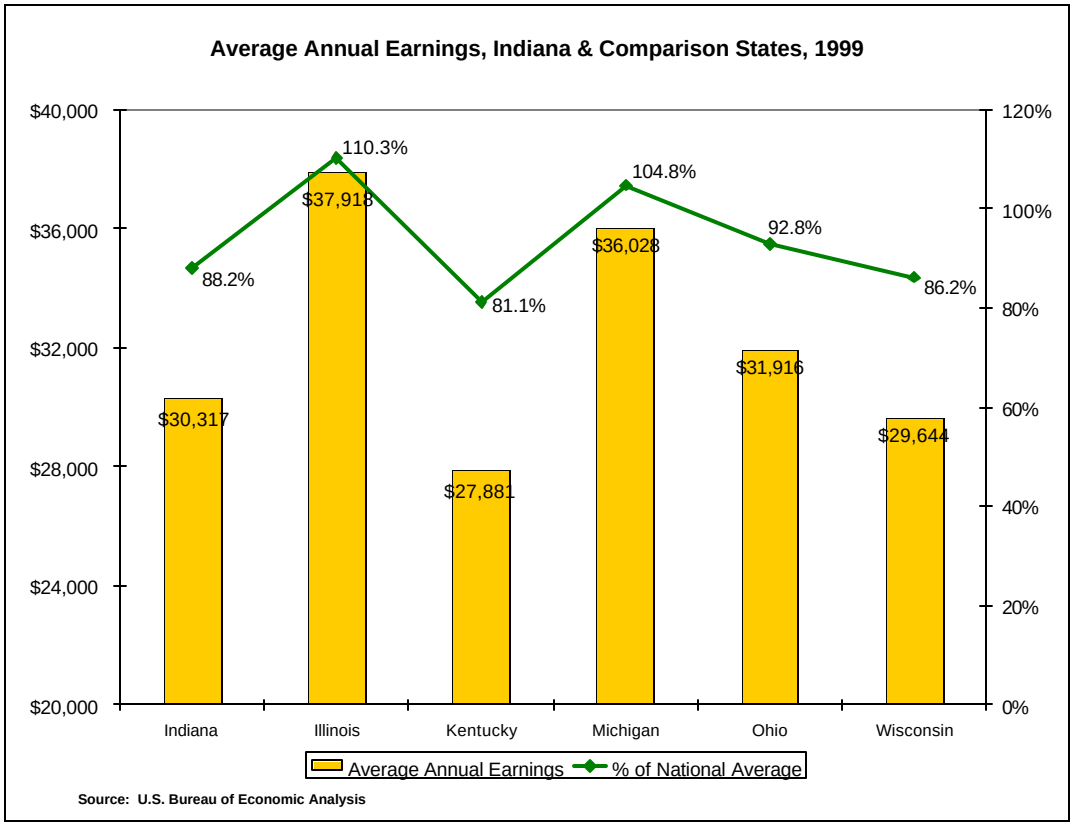


Additionally, Indiana had the highest percentage employment in the Retail Trade sector, and the second highest in the Construction sector. On the other hand, the Government sector was the smallest in Indiana, and Indiana also had the second smallest sectors in Wholesale Trade and FIRE. Because Mining accounts for a very small percentage of the total employment in all of the states, it has been excluded from the analyses in this entire section.

The higher concentration of employment in Retail Trade (typically the lowest paying sector in the nation) and the lower concentration in Wholesale Trade and FIRE (typically some of the highest paying sectors) may provide some explanation as to why the PCI in Indiana has not made stronger gains over that last 20 years, and remains weak in comparison to the other states.

Earnings

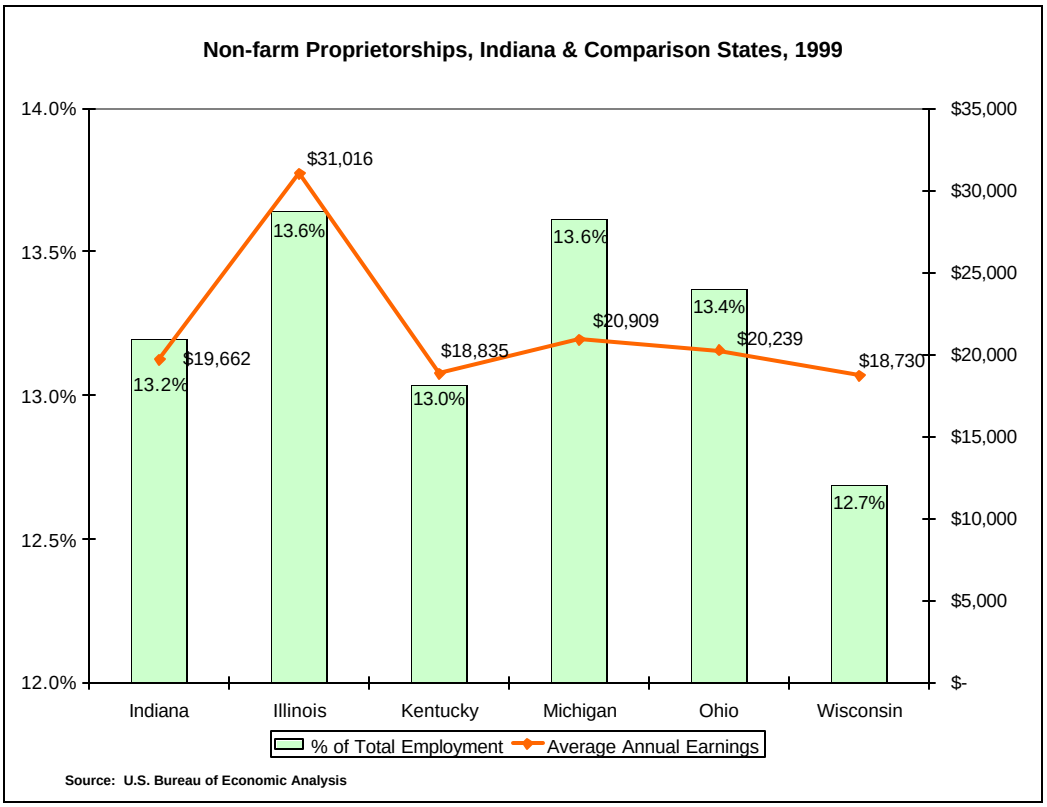
The chart below compares the average annual earnings in Indiana to the other states. Indiana had the third lowest average annual earnings of these states, which affects its PCI. There are very strong average annual earnings in this region, with both Illinois and Michigan having earnings that were higher than the national average, but the region also has states with very low earnings.



One reason for the variations in the average annual earnings across states is found in the sector earnings within each state. A review of this information illustrates that all but one sector (Agriculture) in Illinois had earnings that were over 100% of the national average for that sector. Michigan had the second highest number of sectors that exceeded the national average. As was discussed earlier, none of the sectors within Indiana had average annual earnings that exceeded the national average. These discrepancies in sector earnings translate into the variations seen in the average annual earnings among the comparison states.

Self-Employment

The percentage of non-farm proprietors to total employment provides an indicator of the level of entrepreneurship in a state. While a high percentage of non-farm proprietorships provides an indication of the climate for small businesses within a state, it also may be a proxy for the level of innovation and creativity within the workforce, both of which are characteristics valued by employers. As illustrated in the chart below, Indiana had the third lowest non-farm proprietorship of the comparison states in 1999. However, all of the rates for non-farm proprietorships across the states were around 13% of total employment.



Similar to the percentage of non-farm proprietorships, the average annual earnings for non-farm proprietors in Indiana was the third lowest of the comparison states. The average annual earnings for Indiana was in line with the earnings in the comparison states, with the exception of Illinois which had earnings over $10,000 higher than the other states.

Key Economic Structure Findings for Indiana and Comparison States

- Indiana had one of the smallest Services, Government, Wholesale Trade, and FIRE sectors of the comparison states. On the other hand, the State had the largest Manufacturing and Retail Trade sectors. The small percentages for the Wholesale Trade and FIRE sectors is of concern for the State since these two sectors tend to have some of the highest paying wages nationally.

- Indiana had the third lowest average annual earnings of the comparison states. A review of sector earnings indicates that the states with the strongest average annual earnings had a number of sectors with average annual earnings that exceeded the national average. As a result, Indiana, which had no sectors that paid above the national average, had weak average annual earnings in relation to the comparison states.

- While Indiana had the third lowest rate of non-farm proprietorships, all of the states had non-farm proprietorship rates than averaged around 13% of total employment. Additionally, the average annual earnings for non-farm proprietors in Indiana was also the third lowest. However, with the exception of Illinois, all of the states had average annual earnings that were comparable to Indiana.

Summary of Key Findings

Change is inevitable. The advent of a global economy has altered the approach toward economic development for states, regions, counties, and cities across the United States, and countries across the world. Keeping pace with the impacts caused by changes in the economic structure and social demographics is essential for any state to remain competitive and continue to grow in today's market. Understanding the realities of where Indiana is today is a key component of creating sustained prosperity for the future.

The findings presented in this *Economic and Demographic Profile* identify several challenges, opportunities, strengths, and weaknesses for Indiana. This summary brings together the key findings presented in the previous sections, to paint a holistic picture and tell the story of Indiana's position relative to the nation and its neighbors and the economic well-being enjoyed by its residents.

Population and Population Change

Indiana has experienced steady population growth over the last 20 years, but at a rate that was slower than the national average. This is similar to the other states in the Midwest that were used as comparisons in this analysis, where all of selected states had growth rates that lagged the national average. Compared to its neighbors, Indiana actually experienced one of the higher rates of population growth, coming in second of the six states examined.

Within the State itself, it is very clear that people have been moving out of the urban centers into the surrounding counties, demonstrating a pattern of suburbanization. As a result, the majority of the population in Indiana in 2000 resided within one of the urban areas demarcated by Metropolitan Statistical Area (MSA) boundaries. The Indianapolis, Gary, and Fort Wayne MSAs combined accounted for 45.1% of the total population. Additionally, a handful of counties lost population over the last decade, mostly in rural areas, but population loss also occurred in some of the MSA counties.

One indicator of a healthy economy is a state that experiences a balance of population growth through migration and natural change. In Indiana, almost three-fourths of the population growth over the last decade was due to natural change, the highest of the comparison states and indicating an alarming trend. On the positive side, Indiana did have a positive net domestic migration rate, unlike three of the comparison states that experienced negative domestic migration.

Racially and ethnically, Indiana is not very diverse, which mirrors the racial and ethnic diversity found in the comparison states. Over the last decade, the population growth has led to increased diversity; however, it appears that the non-Caucasian population remains concentrated in the urban centers across the State of Indiana. From an age perspective, Indiana is aging neither faster or slower than the nation or the comparison states. This is a positive characteristic as it means that Indiana has a strong base of working age and child-bearing age residents, and a good size young population that are the foundation of the future workforce.

Educational Attainment and Labor Force

The availability of a well-trained and highly-educated workforce has become a priority and the number one concern for businesses operating in today's global economy. Unfortunately, it appears that Indiana does not fair very well in terms of either well-educated workforce or good labor force availability.

Overall, Indiana had poor educational attainment in comparison to the nation and the comparison states. Although comparable to the national average, Indiana had one of the lowest percentages of adults 25 and older with a high school diploma. Indiana also did not keep pace with the increase in educational attainment at the national level during the 1990s, allowing the edge it had over the national average with respect to high school educational levels to slip away. It does appear that Indiana's secondary educational system is improving with student to teacher ratios decreasing and spending per student and SAT scores increasing.

Unfortunately, for higher educational attainment, Indiana again had one of the lowest percentages of adults 25 and older with college degree both in comparison to the other states and the nation. While gains were made in the percentage of adults with a college degree during the 1990s, these increases were not nearly enough to close the gap with the national average, and the State actually slipped further behind.

At the county level, educational attainment was unevenly dispersed throughout Indiana, with low educational attainment levels concentrated in the southern portion of the State. These counties tended to be rural and not located within an MSA. Higher educational attainment levels were found in the more urban areas, with counties that were adjacent to or contained a major college or university having a higher percentage of adults with high school diplomas and college degrees.

In terms of labor force, the labor market is very tight in Indiana resulting from a higher labor force participation rate and a lower unemployment rate than the national average and the comparison states. The combination of a lack of workforce flexibility and lower educational attainment levels may become a liability for Indiana in the future as the State competes for new businesses and expansions with other locations where the labor force is more flexible and better educated.

Economic Well-Being

In terms of the economic well-being, Indiana had mixed results. The State performed very well in relation to the comparison states and the nation on poverty rates and receipt of government assistance, but worse in the areas of teenage pregnancy, infant mortality, and per capita income (PCI). Trends over time seem to indicate that the economic health of Indiana residents is beginning to stagnate, as there are signs of increases in federal program participation, and the inability of Indiana residents to close the gap in PCI between the State and nation levels and the comparison states.

Economic health throughout the State, like educational attainment, is unevenly distributed. There are pockets of higher poverty and low PCI throughout the State, which are correlated with population loss and high unemployment rates. Poor economic well-being was found in both rural

and urban counties. Signs of low economic well-being in the urban counties is a concern, as this may point to weak and/or dying economic centers across the State.
Overall, however, from the standpoint of the overall welfare of its children, Indiana appears to be one of the better performing states according to the *2001 Kid Count Data Book*, produced by the Annie E. Casey Foundation. In 2001, Indiana ranked 15th in the nation, climbing 11 spots in the overall rankings during the 1990s.

Employment Growth and Economic Structure

Similar to population growth, Indiana experienced steady employment growth over the last 20 years, but at a rate that was slower than the nation. Among the comparison states, Indiana had one of the higher rates of employment growth, but given that none of these states were "top performers" during the 1990s, this is not necessarily as positive an accomplishment as it could be. Employment within the State is concentrated in the urban areas, and commuting patterns illustrate that while people are moving out of the urban centers to live, they are returning to these centers for work. When the 2000 Census information on commuting patterns is released, it will very important to review whether or not this pattern still holds true and whether or not new urban centers have popped up over the last 10 years.

The majority of the employment growth has been concentrated in the Services sector, as Indiana has seen a shift from Manufacturing being the largest employment sector to the Services sector. This indicates that Indiana, along with the United States, has shifted from a manufacturing to a service-based economy. Manufacturing still remains an important sector to the Indiana economy, and the State actually saw a small increase in the actual number of jobs over the last decade, which is the opposite of national trends.

The importance of the Manufacturing sector to Indiana is clearly seen in the sector employment trends for the comparison states, where Indiana had one of the smallest Services sectors, but the largest Manufacturing sector. An analysis at the sub-sector level indicates that the Services sector was strongly influenced by employment probably related to the sports industry, including car racing, football, basketball, and college athletics in the State, while the Manufacturing sector was dominated by industries that were connected with the large motor vehicle and parts manufacturing located in the Midwest.

Average annual earnings across all employment sectors in Indiana were weak in relation to the national average. The strongest earnings were seen in the Manufacturing sector, but as discussed, this sector has seen a decrease in its employment share over the last 20 years. The largest sector, Services, had weak earnings. Additionally, Indiana had a dearth of employment in the Wholesale Trade and Finance, Insurance, and Real Estate sectors, both of which typically have strong earnings, in comparison to the nation and the other states. Since earnings are a key component of PCI, this partially explains the decrease in PCI that Indiana has been experiencing in relation to the nation in recent years. In other words, the shift from a manufacturing to a service-based economy has, over time, hurt the State's economic health.

In terms of entrepreneurship, Indiana had a lower percentage of non-farm proprietorships than the nation, but was about equal to the comparison states. The average annual earnings for non-farm proprietorships in Indiana were also lower than the nation, but is similar to that of the comparison

states. The number and success of non-farm proprietorships can be used as a proxy for the condition and support given to small businesses and vitality of entrepreneurs in a state. Additionally, the number of non-farm proprietorships can be an indicator of innovation and creativity of a State's residents, characteristics which are also highly valued by employers today.

Final Thoughts

As the key findings in this report point out, Indiana clearly has many strengths and weaknesses. The State, with a strong history of employment and economic well-being, has seen a shift in its national position over the last 20 years. As the economy has moved from an agricultural to a manufacturing to a service-based, information technology focus, the question becomes, does Indiana have the right foundations in place to thrive in this new economy?

The State continues to have an economy where the Manufacturing sector plays an important role, despite the fact that the national trends are headed in the opposite direction. Jobs found in this sector continue to pay strong wages while probably requiring a lower level of educational attainment. This has translated into a lower educational attainment of the general population within the State at the Associate, college, and graduate degree levels. Population growth and employment growth both lag national rates, and its impact on the local populace is beginning to be seen in a number of different indicators including increases in federal program participation, and a loss of ground against the national per capita income level. Additionally, the economic and social-well being of residents varies greatly across the State of Indiana.

On the other hand, Indiana has a strong young population that can become a powerful economic force if they receive the proper education and training and remain in the State when they become of workforce age. Additionally, the slight growth in Manufacturing employment that Indiana has seen over the last decade points to potential industries that Indiana may have particular strengths for. The challenge is to find out what those industries are and create an environment for their success and continued growth. The desirability of Indiana as a place to do business is evident in the tight labor market and low unemployment rates.

It is important to continue to recognize and build on the State's strengths, while at the same time, tending to and addressing the various weaknesses. Developing strategies to deal with these issues will be fundamental in improving the overall economic vitality and quality of life in Indiana, thereby improving the economic competitiveness of the State. The global economy continues to define a new playing field, and Indiana must keep pace with the changes and new demands brought about by this reality.